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Thesis

AN INQUIRY INTO THE FUNDAMENTAL PRINCIPLES OF STATE TEACHER RETIREMENT SYSTEMS WITH EMPHASIS ON THE PRESENT SYSTEMS OF NORTHEASTERN UNITED STATES

Submitted by

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CHAPTER I

THE PROBLEM AND DEFINITIONS OF TERMS USED

I. The problem

Statement of the problem.-- The purpose of this study was to discover the answers to the following questions: What are the fundamental principles upon which teacher retirement systems are based and how have they been developed? Are these principles embodied in our present state teacher retirement systems, especially those of northeastern United States? If not, what revisions may be necessary and what present problems indicate the trend of future developments?

Importance of the study.-- Although the first teachers' retirement system in America was organized nearly a century ago and an incalculable amount of material has been written on teacher retirement since then, the most common complaint teachers make about retirement systems is that they "don't understand the law." If this were voiced by those who have recourse only to the legal texts of their state laws, it would be understandable, but it is reported by secretaries of the very states where every effort has been made to explain the law to the teachers.

In preparation for this paper letters were sent to the secretaries of many state retirement boards requesting copies

of state laws and informative material prepared for general circulation. These letters also requested that the secretaries suggest aspects of retirement on which they felt that teachers needed to be better informed. The final form of the problem grew out of the replies received as the response showed a general feeling that there was need for such a study.

The secretaries stressed, above all, this inability of teachers to understand retirement laws. The consensus was that the fundamental principles underlying all sound retirement systems should be explained in simple terms. They also emphasized a number of problems facing state retirement systems on which they felt teachers were very poorly informed. This study covers both.

II. Definitions of terms used

Fundamental principles of retirement.-- Those basic tenets of retirement philosophy and procedure generally conceded by authorities to be sound in both a social and an economic sense.

Northeastern United States.-- Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, and Delaware.

Retirement system.-- "A plan by which persons either because of disability or because of age, or having rendered a specified number of years of service as required by law, are obliged or permitted to leave their positions of employ-

ment, usually with a guarantee of an income for the duration of life.[1] Although this definition does not mention the exact source of this income, the term "retirement system" generally implies an income based upon the contributions of both the employer and the employee, and all, except three,[2] of the state teacher retirement systems are so organized. A "pension" has so commonly denoted a free gift that this term often is eliminated from discussions of retirement in order to emphasize that a retirement income, whatever its source, is retired pay in the sense of deferred payment for past service, not a gratuity.

1/ Carter V. Good, Dictionary of Education. New York: McGraw-Hill Book Company, 1945, p. 349.

2/ Delaware, New Mexico, and Rhode Island.

CHAPTER II

PREVIOUS STUDIES ON TEACHER RETIREMENT

I. Review of the literature

Early literature on teacher retirement.-- A great deal was written on retirement philosophy and early teacher retirement systems in this country prior to 1920. Thus, the period of approximately fifty years from the organization of the first teachers' retirement system, in 1869, to the establishment, between 1913 and 1919, of the first sound systems can be minutely studied. The critical description and analysis of the developments of this entire period as presented by Studenski[1] are sufficient for the scope of this paper, but his comprehensive bibliography of the material published between 1891 and 1919 would be invaluable for anyone making a detailed study of the history of retirement.

Around 1920 there began to be a marked decrease in published materials on the teacher retirement movement. The Institute of Government Research, which had sponsored Studenski's book and an earlier one on the retirement of public employees in general,[2] apparently never re-entered this field.

1/ Paul Studenski, Teachers' Pension Systems in the United States. New York: D. Appleton & Company, 1920.

2/ Lewis Meriam, Principles Governing the Retirement of Public Employees. New York: D. Appleton & Company, 1918.

The Carnegie Foundation for the Advancement of Teaching which began in 1912 to include information on pension development in its annual bulletins, ceased to do so after 1930. In that year Henry S. Pritchett, then President of the Foundation, sounded a warning note. He referred to the period as one of transition and cautioned that lessons of experience should not be forgotten in the attempts then being made in many states to "bridge a gap between an older and less sound system through later and better provisions."[1/] His summary of pension philosophy and review of existing pension systems was the last Foundation publication on this subject.

<u>Recent literature on teacher retirement</u>.-- The entrance of the National Education Association into the retirement field is a possible explanation for these withdrawals and for the failure of other organizations and independent writers to emphasize the subject. The Research Division of the Association and the National Council on Teacher Retirement, founded in 1923, have become so active that the major part of all the authoritative recent material available on the subject of teacher retirement is contained in the publications of the Association.

For example, a recent inquiry directed to the United States Office of Education regarding reference material on

1/ Henry S. Pritchett, <u>The Social Philosophy of Pensions</u>. New York: Carnegie Foundation for the Advancement of Teaching, 1930.

teacher retirement elicited a bibliography listing five of the National Education Association publications and nothing else. The Office of Education, itself, has prepared no recent publications on retirement.

A similar situation is apparent in the field of magazine literature. The _Education Index_ and the _Readers' Guide to Periodical Literature_, for recent years, provide the researcher with a small number of seemingly fruitful references on the subject of retirement, but investigation of the actual articles reveals that they fall abruptly into one of three categories: (1) reprints or condensations of National Education Association material more complete and more satisfactory in the pamphlet form; (2) articles which deal with college professors' pensions and thus do not apply to this study; and (3) articles with misleading titles which either do not concern retirement or have no bearing on the phase of the problem covered by this paper.

Thus, every avenue of investigation leads back to the publications of the Association and through them to the laws of the several states and the material prepared by the state retirement boards on the operation of these laws.

The Research Division of the Association, alone and in conjunction with the National Council on Teacher Retirement and with the Department of Classroom Teachers, has published a number of excellent pamphlets dealing with major aspects of retirement. These pamphlets are of two different types:

(1) those of general interest to persons not especially familiar with the retirement question, How to Establish a Sound Teachers' Retirement System (1938) and Teacher Retirement (1944); and (2) those of special interest to workers in the retirement field, such as Statistics of Local and State Teachers' Retirement Systems (1945). The earliest pamphlet of this type, Statutory Analysis of Retirement Provisions for Teachers and Other School Employees, published in 1944, has been superseded by two revisions, Statutory Provisions for Statewide Retirement Systems (1946) and Analysis of Local Provisions for Teacher Retirement (1947). Of these, the two general pamphlets and the two covering state retirement systems apply to this study and a more detailed description of them follows.

The title of the first, How to Establish a Sound Teachers' Retirement System, is practically self-explanatory, and the suggestions presented are clear and detailed. It is the section describing the principles of a sound retirement system, however, which makes this pamphlet most valuable to this study.

Teacher Retirement is the second of the series of "Discussion Pamphlets" prepared especially for local teachers' associations to use as study guides and outlines for group discussion. Its significance to this paper is that it presents, in very brief form, much of the same material as is covered here in detail.

These two pamphlets set a vocabulary standard by using almost no technical retirement terms; in fact they indicate by omission those terms ordinarily incomprehensible to the layman.

The other two Association publications are very different in treatment and intent. They are highly technical and were designed for administrators of retirement systems. Their use by any other individuals or groups ordinarily would presuppose expert advice and explanation over and above what is contained in the pamphlets themselves.

The Research Bulletin, Statistics of State and Local Retirement Systems, gives ten tables of comparative statistics on the membership and finances of teacher retirement systems. This information was taken from the answers to comprehensive questionnaires sent to all the state and local teacher retirement systems.

In Statutory Provisions for Statewide Retirement Systems the legal provisions of the different retirement laws are tabulated for easy reference. Each state retirement law was analysed by research workers of the Association and their findings were verified and approved by the retirement secretaries of the respective states. The provisions for financing, determining benefits and eligibility, and for administering the systems are set forth in nineteen tables, each carefully explained. Despite the explanations, the technicality of the

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retirement-law language, quoted in the tables, makes this material very difficult reading for the average person who lacks the background in retirement principles and is unfamiliar with the retirement and insurance vocabularies.

The technical nature of these pamphlets placed them on a different level from this study, yet one roughly parallel to it. Thus, they furnished a background of authority for data on basic principles of retirement and also examples of how these are embodied in various state laws.

The National Council on Teacher Retirement, already mentioned, is so influential in this field and yet so little known to the general public, that a brief explanation seems in order. The members of this Council are representatives, usually the secretaries, of teacher retirement boards. Its purpose has been to pool information relating to retirement, to help solve difficulties in administration, and to improve existing systems or aid in the formation of new ones. The speakers at the Council's annual meetings have included prominent actuaries, bankers, and businessmen. The Proceedings of these meetings are printed and circulated among the members but are not made available to the general public. This is, presumably, because most of the problems discussed are either technical ones or are incorporated into other publications of the Association. Some copies of these reports, obtained through the courtesy of New England members of the Council,

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did, however, contain material very valuable to this study.

The teacher retirement laws of the various states are the ultimate sources of information. However, the provisions of these different statutes frequently are found in much simplified form in the material prepared by state boards to acquaint teachers with their retirement systems. In general, the amount and clarity of this material is in direct relation to the length of time the system has been in operation, and it ranges from a mimeographed copy of the state law, with little or no accompanying explanation, to a very carefully thought-out booklet answering all possible queries. This material was important to this paper for three reasons: (1) the detailed descriptions provided simpler and more direct information than the condensed Association analyses; (2) the laws of a number of states have been amended since these analyses were published, making certain corrections necessary before comparisons could be made; and (3) new laws have been enacted which had to be used directly.

II. Limitations of previous studies

Simple and technical material uncoordinated.-- The foregoing review of recent literature on teacher retirement reveals a fairly large gap between the simple, readable but comparatively small amount of material presented from the layman's standpoint and the more extensive but difficult and technical material presented from the standpoint of the trained worker in the retirement field. A gap also exists

between the vocabularies used in the two types of pamphlet, in that technical terms are omitted from the first instead of being explained, and used without explanation in the second since they are familiar to those expected to use the material.

Some of the addresses presented at meetings of the National Council on Teacher Retirement would tend to fill a part of this gap, but the Proceedings are neither listed in the commercial indexes nor ordinarily available to the average person.

The literature circulated by some of the state retirement boards presents a clear, understandable picture of retirement in operation, but each such explanation is limited to the retirement law of one state and so covers only those basic principles exemplified by that particular state law.

Purpose of the present study.-- This study is presented, therefore, to fill the gap in both the type of material available and in vocabulary and to furnish a manual or handbook on the fundamental principles and operation of retirement for the information of teachers and other persons wishing to understand the philosophy on which state teacher retirement systems are based and how these systems operate, and to learn the present trends of retirement thought which indicate probable future trends.

CHAPTER III

HISTORICAL BACKGROUND OF TEACHER RETIREMENT

I. Early development

First teachers' retirement systems.-- During the first half of the nineteenth century, American teachers began to form mutual aid associations which, although they bear but slight resemblance to present-day systems, were the beginning of the movement in this country. At first voluntary contributions were occasionally solicited to alleviate the plight of some teacher known to be in need; later, such contributions were collected regularly. In this way, informal organizations developed and their purpose gradually changed to the establishment of funds for the benefit of the members themselves. The pioneers in the movement were the teachers of New York City who organized the "first voluntary teachers' retirement system in the United States,"1/ in 1869, known as the New York City Teachers Mutual Life Assurance Association. Other cities including "Boston, Philadelphia, Cincinnati, Baltimore, [and] Washington, D. C. ... followed the lead of the New York City teachers."2/

1/ J. Y. Shambach, "Retirement Provisions for the Teaching Profession." Address at the 1943 conference of the Municipal Finance Officers' Association, Pittsburgh, p. 3. (mimeographed copy)

2/ Teacher Retirement. Washington: National Education Association, 1944, p. 3.

The membership of these early organizations consisted largely of the older teachers who were more easily persuaded of the advantages offered. The younger teachers who looked forward to marriage rather than to long years of teaching followed by final retirement, or who simply did not feel able to stretch their meager salaries to cover an additional and, to them, less pressing demand, generally were not much interested. As the older teachers retired, the number of pensioners eventually became so large that the demands made upon the associations could not be met. It became necessary to obtain more funds unless the pensions were to be seriously reduced, and, since it proved difficult either to increase the membership or persuade the members to increase their contributions, the teachers were forced to look for other sources of revenue.

Early legislation for teacher retirement.-- The New York City teachers led the way once more in the matter of additional revenue. "In 1895 they secured legislation to permit deductions from their salaries (required when a teacher was absent) to be used for pensions, and the board of education was charged with the administration of the system."1/ This step was significant as it marked the beginning of the use of public funds and the entrance of government agencies into the administration of the retirement systems.

Teachers in other cities also followed this example and

1/ Teacher Retirement, Loc. cit.

secured public funds "from incidental sources, such as excise taxes and licenses, school and special taxes, ... or from direct appropriations"[1] to support their plans. Although this public money was sought originally to bolster diminishing funds, it came to be looked upon as the main source for the pension payments and, in most systems, the teachers' contributions dwindled or were dropped entirely. As a result, the responsibility was merely transferred and the relief was only temporary. As indicated above, the public money turned over to the teachers' funds was usually some tax which had not been earmarked for any other specific purpose and the amounts received were neither particularly reliable nor elastic. Even when direct appropriations were granted, the amounts were what finance committees felt could be spared and were not based on any estimate of what it would cost to carry out the systems as they had been organized. Soon -- depending upon the size of the resources granted and the number of teachers who retired -- the demands made upon the funds again exceeded the revenue. Many of the systems went into bankruptcy before the underlying difficulties were satisfactorily solved and a sound reorganization effected.

A few of these early systems were statewide. The first such system was organized in New Jersey in 1896. The state

1/ Pritchett, Op. cit., p. 39.

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systems were founded upon the same general assumptions and were subject to much the same vicissitudes, although the city systems were most typical of the period.

II. Failure of the early retirement systems

Fundamental unsoundness of the early systems.-- That the financial set-up of these early systems was causing the recurring difficulties becomes quite evident when the developments are reduced to very simple terms and the emphasis is placed on the financial arrangement rather than on what the systems were intended to accomplish. It should be realized, however, that this was not so evident at the time when these developments were taking place.

In the very beginning, when contributions were being solicited to help ex-teachers who were in need, the teachers in service recognized their donations as charity. The mutual aid plans were formed, ostensibly, to do away with the need for such charity and funds were established out of which pensions were paid to retired members of the group. In reality, the philosophy of mutual aid, as exemplified by these plans, obscured the element of charity without eliminating it. The pension paid a retiring teacher did not depend upon how much or how little he had contributed to the association during membership. Hence, the charity element persisted since the difference between what he had paid in and what he received -- often a very substantial amount -- was

made up out of the contributions of the other members.

When the systems were starting, before any pensions were paid, the teachers' annual dues accumulated in the bank accounts of the associations. As the older teachers retired, their pensions were paid each year out of that year's income and the surplus was added to the savings. When the annual pensions first began to exceed the annual revenue, the additional amount was withdrawn from the bank or raised by fairs or bazaars held by the teachers' groups or by soliciting aid from the general public.

Most teachers' annual salaries around 1900 ranged from \$500 to \$1000 but the average annual dues in these systems seldom were more than one per cent of salary, or from five to ten dollars a year per teacher-member. Most of the pensions, which were sometimes stated and sometimes figured on the basis of from one-half to sixty per cent of the average final salary (in most retirement systems this means the average salary for the last five years of teaching) of the retiring teacher, ranged from \$250 to \$600. Also, these pensions were usually granted on the basis of thirty or thirty-five years of teaching service, irrespective of the number of years a teacher had been a member of the retirement system.[1/]

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Thus it was quite possible for a teacher, who had taught

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for twenty or twenty-five years, to join one of these systems, pay dues of from five to ten dollars a year for as few as ten years and then retire and draw a pension of from $250 to $600 a year for the next ten or twenty years, if he lived and the system did not collapse in the meantime.

During the period when the only regular revenue of the retirement plans consisted of membership dues the annual contribution of one member provided a very small percentage of a single annual pension. Therefore, the active membership needed to heavily outweigh the retired group if a favorable financial balance was to be maintained. Unluckily, after the first few years, the number of pensioners tended to increase steadily while the number of active members usually increased very slowly. The membership was voluntary and, as already pointed out, it was difficult to interest the younger teachers, so the needed proportion of from twenty-five to fifty active members to one retired member soon became impossible to maintain. It is significant to note that, although this fact was the main cause of the breakdown in finances, the vital relationship between the active and retired membership does not seem to have been recognized. As previously mentioned, there seems to have been no connection, in the minds of the teachers who founded these systems, between what a teacher contributed during his years of membership and what he could, in fairness to the others, expect to receive on retirement. They do not seem to have realized that those who

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joined really were gambling their membership dues (which were paid out almost immediately to teachers already retired) on the assumption that the active membership could be maintained at a level which would make it possible to pay their pensions when their turn came to retire.

That they failed to see or refused to recognize this relationship is shown by their efforts to increase their revenues from other sources without altering their pension arrangements. The idea that a teacher who had given years of faithful service was morally entitled to a pension had dominated the mutual aid plans. When the teachers sought public revenue to keep these plans in operation, this idea was given new impetus. Turning from the concept of mutual aid, they now emphasized that the public received the benefit of these years of service and should recognize its responsibility in providing the pensions. This argument not only helped the teachers to obtain public support, but also served to obscure the fundamental financial issue for the time being.

The course of the retirement plans, after public funds were obtained, varied considerably in detail, but the process was substantially the same in outline as what had taken place before. The amounts of public money granted, the number of times the appropriations were increased, and whether the teachers' contributions were dropped or continued, all

affected the final outcome but only in the length of time it was postponed. The only fundamental change which had been effected in obtaining public support was that the responsibility for the retirement systems had been transferred from the teachers to the local or state governments.

These early pension plans attempted to operate on a sort of false "pay as you go" basis by paying the pensions, as they came due, out of the annual income. A true "pay as you go" policy is only possible when expenditures are so budgeted that they do not exceed the available income. This applies not only to current expenditures, but also implies that no increased expenditures will be planned for the future unless there will be increased income to meet them, or the necessary amount is saved out of the current income. This usually means that no future obligations are undertaken without setting aside a reserve to meet them when they fall due since an estimated increase in income cannot always be depended upon.

The pensions offered by the teachers' plans were not budgeted on the basis of either actual or estimated income, nor was any real reserve set aside to meet future obligations; rather the attempt was made to obtain enough revenue to pay the amounts promised as they came due and the systems were never able to obtain enough to cover current expenses and at the same time build up any sizable reserve. In fact, the tremendous accrued liabilities entailed were seldom estimated,

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much less taken into consideration. Although each teacher who joined one of these systems represented a future obligation which could easily amount to $10,000 (assuming that he was granted a pension of $500 a year and lived twenty years after he retired), no real attempt was made to accumulate reserves to meet these obligations, mainly because they were not faced.

<u>Actuarial investigations authorized</u>.-- Once the pension payments began to exceed the revenues, from whatever sources derived, only increased revenues or reorganization could keep the plans from collapse. After government agencies assumed the responsibility of the systems the pensions could have been maintained if these agencies had been willing to go on increasing appropriations indefinitely. However, in most cases, the original amounts requested had been represented as, or understood to be, sufficient to carry on the systems and the public was not prepared for steadily increasing demands. Instead, when requests for additional revenue continued, legislators began to ask insistently why the systems could not operate on the amounts originally granted and they began to recall warnings which had been sounded earlier by men experienced in the operation of insurance pensions. Figures which had been cited by such actuaries were taken more seriously as the demands for appropriations increased and investigations were ordered in many systems.

The fact that teachers' pension plans were similar, in

certain respects, to insurance annuities, had long been recognized, but there had been equally long and determined opposition, mainly on the part of the teachers, to the admission that in the difference in financing lay the key to the problem of why the teachers' plans refused to function. The obvious charge that the insurance companies were in business to make money had been used as effective opprobrium whenever the comparison was attempted. The teachers' plans were not doing that kind of business, was the retort. That they were not doing business at all, or could not long continue to do so, finally became so evident that experts were called in and out of their investigations grew the first sound systems.

III. Evolution of sound retirement systems

<u>Insurance formula for financial soundness</u>.-- When an individual wishes to purchase an insurance annuity, his age, the age at which he wishes to retire, and the retirement income he wants, are the significant facts on which an insurance company figures what he must pay. (The relation between a person's health and his acceptance as a justifiable insurance risk is generally understood and is not used in this discussion as it does not enter into the basic comparison with group retirement plans.) The younger a person wishes to retire, the longer the company must be prepared to pay him an annual income. Thus, the insurance company must

estimate, on the basis of its mortality tables,[1] the number of years he will probably live after retirement. This number, multiplied by the annual income he desires, produces the approximate amount the company will have to pay him. The same figure, divided by the number of years between his age at the time he takes out the policy and the age at which he plans to retire, produces the annual amount he must pay. Of course, this annual payment, or premium, can be reduced somewhat because of the interest which will be earned on his premiums during the years the company holds and invests them before the retirement income payments start.

The important point is that the amount of retired income promised an annuity policy-holder depends primarily upon the amount of money he will pay each year until he retires and the number of years he will pay this premium. In other words, a reserve fund is built up for him by the company out of which his income is paid after his retirement. This reserve fund consists of his payments and the interest earned by them as they accumulate. This is the scientific or businesslike way of figuring retirement incomes at which the teachers long had scoffed, but on which the first sound systems finally were based.

The general principle, as outlined in the example, is

1/ Hugh O'Neill, Modern Pension Plans. New York: Prentice-Hall, Inc., 1947, pp. 50-61 and Appendix B, pp. 347-361.

the same whether an individual or a group is involved and it does not depend upon who makes the payments. That is, whether the teachers, or a local or state government, or both together, contribute to the retirement fund is not so important to the financial soundness of the plan as is the relation between the amount of those contributions per teacher and the promised retirement income.

The application of this one insurance principle did not solve the entire problem. However, in those systems where this principle was acknowledged and applied, the continuity of the systems, financially, was assured to a great extent and the most serious single weakness of the old systems was corrected.

<u>The first sound teacher retirement systems</u>.-- Massachusetts although not the first state to have a pension system for its teachers, in 1913 became the first in the country to establish a "scientifically constructed teachers' retirement system."[1] In 1917, after several attempts, a sound reorganization of the pioneer New York City system was effected. This system had experienced some of the typical vicissitudes and was one of those which had become insolvent before the difficulties could be overcome but, since 1917, has been one of the strongest in the United States. Following closely and benefitting by the examples of both Massachusetts and New

1/ W. F. Willoughby, in Studenski <u>Teachers' Pension Systems</u>. Introduction, p. xvii.

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York City, a number of other systems were reorganized and many new systems established. The Pennsylvania Public School Employees Retirement System, in 1919, replaced all the local organizations authorized by the Pennsylvania School Code of 1911. New Jersey, whose statewide system was the oldest in the country, and which had, in addition to the usual financial troubles of the early systems, the problem of a double system of state retirement fund and local pension act, in 1919 was able to establish a new system superseding both the old ones. Among the new systems established in states which had had no previous state-wide systems were those of Connecticut in 1917 and Vermont in 1919.

These systems are referred to as the first sound ones because they were the first built upon a financial foundation similar to the insurance principle described.

During this same period the Carnegie Foundation for the Advancement of Teaching, convinced that its pension system for college professors needed reorganizing, began a study of retirement. From 1912 until 1930 the Foundation reviewed, in its annual bulletins, the pension progress in this country, "thus greatly contributing to the scientific consideration of the problem."[1]

Spread of the statewide systems.-- The trend toward state systems, which received its greatest impetus in the

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1/ W. F. Willoughby, Op. cit., p. xviii.

years between 1910 and 1919, has continued, although slowly at times, ever since. In 1919 there were twenty-two statewide teacher retirement systems, and in the next twenty-five years seventeen new systems went into effect, bringing the total up to thirty-nine. The two years between 1944 and 1946 saw the last great increase as the nine states which had had no previous statewide coverage all established systems during that time.

Although all forty-eight states now have statewide systems, there are still local teacher retirement systems. Most of these, like the New York City system, were organized prior to the state plans. While most local systems were absorbed into the state systems when these were established, this was usually made optional and some of the local systems which preferred to remain separate have done so. However, in California, certain local systems such as those of Los Angeles and San Francisco were formed after the state system because the state plan was considered inadequate and the two systems are operated in conjunction. A new teacher must belong to the state system but, if there is a local system where he is teaching, he may belong to this also and pay dues and build up retirement accounts in both. This is, of course, an unusual situation.

<u>Continuous legislation affecting retirement laws</u>.--While the establishment of a statewide retirement system is

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Continuous legislation affecting retirement laws.-- While the establishment of a statewide retirement system is

a great step forward in the old age protection of that state's teachers, only a detailed analysis of the provisions of each state retirement law, as compared with presumably ideal provisions, would show the completeness of that protection. Some representative present-day systems are so analysed in a later chapter but it is not possible to follow in this study all the developments within the various state systems over the intervening years. It is essential, however, to realize that few of these systems have remained static. The retirement laws have been amended and the provisions improved.

These amendments have been made to correct imperfections in the original laws and to improve provisions which changing conditions have rendered less satisfactory than when first enacted. Pritchett, in 1930,[1] made a comment which illustrates the problem then confronting retirement systems and which applies, to a modified extent, at present.

> The fact that no public school teachers' retirement system can be regarded as ideal, and that every system now in operation imposes compromises rendered advisable or unavoidable by the necessity of adjusting ideal provisions to personal and economic conditions, should not obscure the fact that in the last twenty-five years statewide teachers' retirement systems have been constantly becoming more sound.

Retirement system administrators working to remove these compromises have been increasingly successful during the last five or ten years. The growth of retirement systems in

1/ Henry S. Pritchett, Op. cit., p. 43.

general have made the public more conscious of this problem and the attitude toward state-supported public employees' retirement plans has become more and more favorable.

Thus more complete revisions in retirement laws have been made possible. In the last two years Massachusetts and Vermont, two of the states which pioneered sound statewide systems, have enacted laws drastically changing their retirement systems. Maine established a new public employees retirement plan in 1947 and, at the present time, a new teacher retirement law is being prepared for New Hampshire.

CHAPTER IV
THE FUNDAMENTAL PRINCIPLES OF RETIREMENT

I. The philosophy of retirement

The mutual aid associations which grew out of the charitable desire of a few teachers to help those less fortunate than themselves and developed into plans by which teachers believed they could provide security for their own old age were not founded upon any carefully-formulated philosophy of retirement. On the contrary, the philosophy, nebulous and imperfectly understood as it was, appears to have grown out of the early developments instead of directing them. This may explain its incongruous combination of idealism and expediency as well as its violation of certain commonly accepted tenets of retirement philosophy. An explanation of these fundamentals of retirement in general will provide a foundation for the consideration of problems peculiar to teacher retirement.

<u>The primary question</u>.-- If a retirement system is to be established, "the primary question which must be settled is the social philosophy upon which the system is to rest."[1] There are two distinct plans to be considered: a free pension

1/ Henry S. Pritchett, *Op. cit.*, p. 5.

system in which the employee does not participate but receives, upon retirement from service, a gratuity of a more or less charitable nature; and a retirement system of the joint-contributory type in which both the employer and employee cooperate in building up a reserve fund out of which, at retirement, the employee receives an income which is part annuity and part deferred payment for past service, so that the idea of charity is eliminated. The adoption of either system involves further decisions regarding whether the pension or retirement income is to provide relief from want only or a modest income; what responsibility the system will assume for employees who are disabled before reaching retirement age, or for the dependents of those who die while employed. A pension plan is not concerned, generally, with employees who leave the service, but a system which accepts employees' contributions must embody a policy governing what part of these contributions will be refunded to one who is discharged or who resigns.

The founders of the early teacher retirement systems in this country did not decide these questions beforehand but drifted from one type of system to the other as circumstances dictated. Their belief that a teacher was entitled to a pension in recompense for years of faithful service was idealistic in concept but the arguments used to obtain the wherewithal to provide these pensions were influenced by expediency

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rather than idealism or a sound appraisal of the practical benefits to be derived by the teachers and their employers or a practical method of obtaining them.

Pritchett, in discussing the problem of retirement, divides the underlying philosophy into economic and social considerations. The ensuing explanation of these aspects is based largely on his work.

Economic aspects of retirement.-- 1) A sensible economic policy requires that the cost of a retirement system be justified by the benefits gained by the service as a whole. There is considerable evidence that a free pension plan is not justified on this basis. Provision for the retirement of superannuated employees is, however, "a question of direct administrative efficiency...[because it relieves] the working force of relatively incompetent members...[making the] career more attractive and this draws to its service a better personnel."[1]

2) A substantial reserve either must be set aside when the system is established or built up by gradual accumulation so that part of the cost of the system may be carried by the earnings on investments. Otherwise this cost becomes so excessive that "it can only be borne by the unlimited purse of a government as is the case of the military and naval pensions of the United States."[2]

1/ W. F. Willoughby, Op. cit., p. xvi.

2/ Henry S. Pritchett, Op. cit., p. 8.

3) While the members of a professional group cannot set aside a reserve, they can help to build up a reserve fund by making regular payments during their years of active membership in a retirement system. A central agency is needed to collect these payments and supervise investments.

4) Experience indicates that in the most satisfactory systems both the employer and the employee make regular payments and the employer assumes the responsibility of collection and investment. The contribution of the employer may be looked upon as salary withheld to be paid after retirement.

These economic aspects may be summarized as follows: the retirement plan should 1) clearly benefit the service; 2) be based on an invested reserve; 3) set up a central agency for collection of payments and supervision of investments; and 4) provide for regular payments by both employer and employee.

Social aspects of retirement.-- A wise social policy guarantees to the participants in a retirement plan certain definite rights.

1) A member of a professional group should be able to insure a reasonable measure of security for himself, against dependent old age, and for his dependents against the event of his early death or disability. One of the serious objections to a free pension plan is that it does not provide the same security as a joint-contributory system. The free pension is a gratuity which may be reduced or withheld altogether at the discretion of the employer, but a joint-con-

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tributory plan involves contractual rights which may not be rescinded. Also, a joint-contributory plan, because of its system of double payments, offers the employee an opportunity to save toward a better retirement income than a commercial insurance company could offer him for the same investment.

2) A professional person should be able to transfer from one service to another without sacrificing all of the credit in years of service and financial accumulations built up under the system from which he wishes to withdraw. This constitutes a further objection to free pension systems as the employee's equity in these plans is not such that the withdrawal of any financial credit is possible.

3) "It is generally agreed that the working of an adequate system should provide for the typical individual who enters the group, a retired pay of from fifty to seventy per cent of the active pay at the time of retirement."[1] Inadequate retirement allowances are a short-sighted form of economy as employees are inclined to "hang on" as long as possible rather than to retire on an insufficient income. Obviously, paying a full salary to an employee whose efficiency is greatly impaired is more expensive than retiring him on part pay especially if the retirement income will be paid out of a joint-contributory account.

4) Voluntary membership is usually unsatisfactory since

1/ Henry S. Pritchett, Op. cit., p. 11.

many members of the group, especially the younger ones, tend to postpone joining and this delays the accumulation of adequate reserves. Some form of compromise is generally adopted when a plan is established but compulsory membership is usually recognized as the ultimate goal. This makes for relatively stable membership and insures that no employee will be unprovided for at the time of retirement.

These social aspects may be summarized as follows: the retirement system should guarantee to the employee 1) reasonable security for himself and his dependents; 2) the right to transfer to another system without loss of retirement equity; 3) retired pay which is a fair proportion of active pay; and 4) a stable membership to insure the creation of adequate reserves.

Some implications of retirement philosophy.-- While the economic and social considerations just presented do embody the main features of the fundamental philosophy of retirement, they do not exactly parallel the philosophy expressed in most teacher retirement systems. The two most marked differences exist in the matters of reserves and of equities and, although both will be considered in connection with the operation of actual retirement laws, a resume' of the opposing points of view now may help to prevent any misunderstanding.

While the reserve plan is generally conceded by experts to be the most satisfactory form of financing, there are three

plans, variations or combinations of which, are actually used in teacher retirement systems. These are the cash distribution, semi-cash distribution, and the reserve plans. In the cash distribution plan, no reserve is set up and the costs of operation are not calculated in advance. As employees retire, the benefits are paid each year out of the current revenues from appropriations, members' contributions, or both. In the semi-cash distribution plan, the ultimate cost is not calculated in advance but a rough estimate is made of the amounts required for the first few years and revenues somewhat in excess of the anticipated need are provided. This excess is invested and the interest earned pays a small amount of the cost, but when the disbursements exceed this estimated income the surplus is soon exhausted and a purely cash basis is reached, often with more revenue required. "Under this and the preceding plan, contributions required of members are used ultimately, wholly or in part, to meet current expenditures."1/

The reserve plan is set up only after the full ultimate cost has been calculated and arrangements have been made to obtain the amounts required. The percentages of employees' salaries which will be required to accumulate the reserve necessary to pay their share of the proposed retirement incomes are estimated in advance as well as the appropriations

1/ Ralph R. Nelson, "General Principles of Financing Retirement Benefits on a Sound Basis," National Council on Teacher Retirement Proceedings. Washington: National Education Association, 1942, p. 4.

which the state must make on behalf of the members, to set up a reserve fund, and meet such current expenditures as the costs of administration.

These preliminary calculations, which must be made by an actuary, are extremely complicated but the general method employed can be explained briefly along the lines of an insurance annuity. The retirement income considered adequate for a typical member of the system is decided upon and the amount of money required to purchase such an income, or annuity, at the time of retirement, is figured. This amount is divided by the number of years of service the typical member will perform before his retirement to learn the approximate amount which must be paid each year. The member's contribution, which may be a fixed percentage of salary or which may vary according to continuous actuarial calculations of the amounts needed to accumulate the desired total, is computed to provide, at retirement, approximately half the desired income. The state's appropriations are likewise calculated to provide approximately the other half. The contributions of the member and usually the state's contributions on his behalf, as well, are credited to his account and held in trust for him until retirement. Under such a system, the benefits promised each member are protected since none of the money paid by him or appropriated for him is used for any purpose other than to provide his retirement income.

Although the joint-contributory reserve plan is the one most commonly adopted, combinations of reserve and cash disbursement plans have been used in some states for many years. The Massachusetts system was the first to adopt the principle of reserving the members' payments in a separate fund but the state's payments are made on a cash disbursement basis. That is, the member's share is accumulated on an actuarial basis and each member's account is kept separately, but the state appropriates each year the amount needed to meet current, not future, expenses. The Connecticut system, patterned after that of Massachusetts, at first operated on the same basis, but changed the method of meeting the state's obligation in 1919. Since then the entire amount needed to pay for the state's share of a teacher's retired income has been appropriated in a lump sum just previous to his retirement and invested to provide his pension payments for the remainder of his life.[1] The amount required for this pension is figured on an actuarial basis so the chief difference in this method is that the state's entire payment for a teacher is appropriated at one time instead of being accumulated during the whole of his active service.

Regardless of the plan adopted, if the members make contributions, the question of what money shall be refunded to members who leave the service must be decided. The first

1/ <u>Cf</u>. <u>post</u>, p. 57.

teacher retirement systems did not refund any of the member's contributions if he resigned or was discharged and this was one of the reasons why young teachers were very reluctant to join. At present practically all the contributory teacher retirement systems return all the teacher's contributions, usually with the interest earned by those contributions, if he leaves the service. Somewhat less than half of the state retirement plans offer the withdrawing teacher the alternate privilege of accepting, instead of a cash refund, an annuity based on his accumulated payments. A few plans include the state's contributions, under certain special circumstances, usually when the teacher loses his position after many years of teaching in the state but is not eligible for disability retirement.

As previously mentioned, the employer's contributions to the employee's retirement account may be regarded as deferred salary which is to be paid after retirement in the form of retired pay. If this reasoning is accepted and carried to its logical conclusion, once the employer's payments have been credited to the employee's account they should belong to him since they constitute a part of the salary due him for service already performed. While the full implication of this contention has not been accepted as yet, it is considered possible by some authorities that it may be given much more serious consideration in the future.

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II. Essentials of teacher retirement systems

Even though the general philosophy of retirement may be applied directly to teacher retirement as shown by the examples already given, there are certain essential principles of teacher retirement philosophy which this general philosophy does not cover specifically. The National Education Association has prepared a clear and definite explanation of the "Essentials of a Good Retirement System"[1/] which includes these and from which the following summary is taken.

> Details of retirement laws are complicated, and yet many of the details are essential to an adequate retirement system. However, the main points are... (1) that the plan should be a joint-contributory reserve plan, in which individual accounts are kept of the teacher's contributions and these are matched by concurrent state contributions during the teacher's active service; (2) that the state should provide for prior service credit; (3) that the teacher's contributions should be returnable if the teacher withdraws or dies before retirement; (4) that the retirement allowance should be payable in several alternative ways to fit the teacher's personal situation; and (5) that disabled teachers should be allowed to retire before reaching the age and service requirements for regular retirement.

The first and third points mentioned, a joint-contributory reserve plan and returning the contributions of the teacher who withdraws before retirement, have been quite fully discussed. The only additional comment needed is that most states pay to the estate of the teacher who dies in active service the same amount as would be refunded in case of withdrawal. The other three points are either entirely new or

1/ Teacher Retirement, Op. cit., p. 11.

have been mentioned so briefly that they need to be explained in detail.

Prior service credit.-- This is the method used to provide adequate retirement allowances for teachers who have already given years of service when the retirement law is passed. Teachers with half or two-thirds of their teaching years behind them would not have time to build up retirement accounts large enough to provide even modest incomes. If, however, their years of service prior to the establishment of the system are credited and paid for by the state, their retirement incomes can be reasonably comparable to what they would have received if the system had been in effect during all of their active service.

This is an extremely important angle of the joint-contributory plan. If there is no prior service credit, the system cannot begin to pay adequate retirement incomes until it has been in operation from twenty to twenty-five years. As such a plan is organized, each of the member's accounts is separate and the total accumulated to his credit is used, at retirement, to provide his retirement income. If only his contributions and the state's contributions based on his years of membership in the system are used for this purpose, the teacher who retires after ten or even twenty years of membership will have to his credit only enough to provide a small annuity.

If, however, prior service credit is granted, and a sum,

computed on the basis of the teacher's years of service prior to the establishment of the system, is added to his account, even a teacher who retires shortly after becoming a member can be paid a fairly adequate income.

When the money necessary to pay for this prior service can be appropriated or accumulated over a period of years, it is not too grave a problem for state financing. However, if there has been no previous statewide retirement system and few or no local retirement systems, the number of older teachers, many of them considerably over the usual retirement age, is often found to be extremely large. Since many of these teachers have continued in service rather than retire on what they have been able to save, it can be assumed that -- granted prior service credit which will insure fairly adequate retirement incomes -- the majority of them will retire as soon as possible after the system is established. This means that the sum needed to pay for their prior service must be available when the plan goes into operation, and the amount involved, if all these older teachers are to be given full prior service credit, is apt to be more than the state can possibly afford to appropriate outright. For this reason, the prior service credit allowed may have to be limited to the number of years per teacher for which the state can afford to pay. Even when this has to be done, the oldest teachers are usually able to retire as soon as they wish on fairly adequate incomes toward which they, themselves, have made little

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or no contribution.

Although the most common method of designating the amount of each member's contribution is a percentage of salary which is the same for all members, some systems have adopted instead a graduated scale of percentages depending upon the sex of the member and the age at which he joins the system. Where such a graduated scale is used, it is possible for all teachers regardless of the age at which they join the system to accumulate approximately the same total accounts and receive, upon retirement, more nearly the same incomes than would have been possible with a single fixed percentage. Although this method does not eliminate the need for prior service credit, it does make it possible to limit this to an earlier date which will allow the greater share of such credit to the oldest teachers and ease the burden of immediate appropriation for the state. Where the state matches the larger appropriations of the middle-aged group, their share of the state money is not appreciably less but these appropriations can be spread over a longer period.

Alternative retirement allowances.-- The best known and probably most popular form of retirement allowance is the annual income paid in monthly installments from the time a person retires until his death. This annuity, which ceases at death, offers the largest annual income for the amount invested and such an annuity is usually provided as the regular

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retirement allowance for retiring teachers. Teachers who have one or more dependents often would prefer to accept a smaller allowance in order to provide for these dependents, and alternative choices are usually offered for the benefit of such teachers. In one alternative type of allowance the total value of the member's account, at the time of retirement, is divided into a number of smaller payments with the understanding that any amount remaining in the account, at his death, will be paid in one lump sum to his estate or his beneficiary. A second alternative also provides an allowance smaller than the annuitant would receive under the regular annuity (ceasing at death) but, after the member's death, this allowance is paid to his beneficiary while the beneficiary survives him. A variation of this second alternative provides a smaller allowance for the annuitant and, after the annuitant's death, an allowance one-half as large for the beneficiary. The advantage of this last alternative is that during the annuitant's lifetime the larger allowance will be used for both himself and his dependent and the smaller allowance will provide for the dependent if the annuitant dies first.

These typical alternatives illustrate some of the choices in retirement allowances which should be offered so that the retiring teacher may select the one best suited to his own circumstances.

Disability allowances.-- Permanent disability caused by illness or accident forces some teachers to leave the service before they have reached the usual age or completed the number of years of teaching required for eligibility for regular retirement allowances. In most states such teachers are granted disability allowances if they can meet certain requirements. The major requirement is a minimum number of years of membership in the retirement system, and usually the teacher must appear before a medical board and be declared permanently disabled for teaching. The disability allowance is commonly computed in the same way as the regular retirement allowance and is, therefore, considerably smaller than the retirement allowance would be unless the teacher is close to retirement age when he becomes disabled. Most of the states make provision for augmenting the allowance if it is below a certain minimum in order that the teacher may be assured of enough to live on, provided that he is unable to earn anything at any other type of occupation.

Other important principles of teacher retirement.-- Emphasis has already been placed upon the variation between the philosophy of retirement and its expression in actual teacher retirement practice. It seems advisable, therefore, to point out that the omission of certain principles from the summary of essentials just discussed does not mean that these are excluded from customary teacher retirement practice.

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Although most of these were mentioned in the discussion of retirement fundamentals, they are reviewed here in the form in which they are most often found in teacher retirement systems.

(1) Compulsory membership: Membership in the retirement system generally is required of all new teachers as a condition of their employment. Usually membership is optional for teachers already in service, although ordinarily only a limited time is allowed for them to exercise this option. As the National Education Association[1] points out:

> It would probably be desirable to require all teachers to become members, including those already in service, if it were not for the fact that those in service, not understanding the purpose and advantages of a retirement system, are likely to oppose the enactment if membership is made compulsory for them. It has been the experience that when proper information is issued practically all the teachers already in service enter the retirement system.

(2) Retirement age and retirement allowances: Rules governing the number of years of service after which a teacher may retire or the age at which retirement becomes compulsory are so stated in most systems as to retain teachers during efficient service and retire them when age or disability renders their service unsatisfactory. Adequate retirement allowances need to be provided so that they will not be tempted to continue teaching after they have become inefficient.

1/ <u>How to Establish a Sound Teachers' Retirement System</u>. Washington: National Education Association, 1938, p. 10.

(3) Periodic actuarial examinations: A sound retirement system is based upon the careful calculation of actuaries. These experts in insurance operation base their estimates upon all the facts available plus detailed tables and previous experience. Despite the care with which these estimates are prepared changing conditions are apt to make revisions necessary. The unprecedented drop in investment returns which began some years prior to World War II and which still continues is an example of the type of change which upsets the most painstaking calculations. Many retirement laws provide for periodic examinations and for revision of rates when such examinations show that this is necessary to insure the continued financial soundness of the system.

(4) Absorption of older systems: If a new retirement law which is passed to supersede an older system is set up as it should be, the teachers already retired under the previous system are guaranteed at least the allowances promised them. Teachers in active service who were members of the older system are allowed to transfer their accounts to the new one equitably and their rights under the former system are safeguarded. The money to meet these obligations is provided by the funds of the old system or, if these are insufficient, appropriated from public funds; the responsibility should not devolve, under any circumstances, upon the teachers who become members of the new system.

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(5) Reciprocity between retirement systems of different states: Reciprocal or cooperative relations need to be established between the retirement systems of the different states so that a teacher who wishes to transfer to the service of another state may do so without loss of retirement equity.

Some credit for out-of-state service is granted by about half of the present state retirement systems. In some states this can be used only in meeting the years of teaching service requirement upon which eligibility for retirement is based. Where credit for out-of-state service is used in this way it does not increase the retirement income. A number of states gave credit, at the time the present law was enacted, for some or all of the out-of-state service of teachers who became members of their retirement systems prior to a given date. This type of credit did increase the retirement income, although some of it had to be paid for by those who claimed it. In a few states some or all out-of-state service is credited if the teacher wishing to claim it can "pay into the retirement system contributions equivalent to the amount he would have contributed had he been in state service for the period claimed and had he been a member of the retirement system during that period."1/

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1/ Statutory Provisions for Statewide Retirement Systems. Washington: National Education Association, 1946, p. 22.

tory teacher is one of the most pressing of present-day retirement problems. A detailed discussion of the proposals being considered will be found in Chapter VI.

CHAPTER V

EVALUATION OF STATE TEACHER RETIREMENT SYSTEMS OF NORTHEASTERN UNITED STATES

I. Methods of evaluating teacher retirement systems

It was suggested earlier that only a detailed analysis of each state teacher retirement law as compared with presumably ideal provisions would show the completeness of the old age protection of the state's teachers. If such an analysis is to be attempted for the Northeastern States, a basis for this comparison must be provided.

<u>Checklist procedures</u>.-- The National Education Association recommends the evaluation of state retirement laws and presents somewhat similar checklists in two of its pamphlets intended especially for teachers' or laymen's use. The first of these checklists[1] consists of a list of twenty questions which is introduced with the assurance that "if the teacher can answer 'Yes' to each question... with regard to the retirement system to which he belongs, he may rest satisfied that his system embodies the best features to be found in existing systems."[2]

1/ *Teacher Retirement*, *Op. Cit.*, pp. 21-22.

2/ *Ibid.*, p. 21.

Although these twenty questions are simplified so that each refers to a single aspect of retirement law and the larger principles already discussed are separated into details of retirement procedure, they cover substantially the same ground as the "Essentials of a Good Retirement Law" previously quoted from the same pamphlet.

The other checklist[1] presents sixteen statements also covering the principles of retirement and is designed to be used in determining if a retirement law is sound.

Both of these checklists are intended for use in the evaluation of a single system. Comparison of a number of state systems on this basis would be awkward, but any teacher wishing to analyse his own retirement system will find them extremely valuable. They also provide, indirectly, a checklist for this study in that the major principles which are on both of these lists should be included in any form of evaluation used here.

Use of tables.-- In addition to the checklists just mentioned the National Education Association has published a detailed analysis of all the statewide retirement systems of the United States as of January 1, 1946.[2] This analysis is in

1/ How to Establish a Sound Teachers' Retirement System, Op. cit., pp. 9-15.

2/ Statutory Provisions for Statewide Retirement Systems, Op. cit.

the form of tables, each devoted to one aspect of retirement procedure, which are classified under four main headings: Financing, Eligibility Requirements, Benefits, and Administration.

If it were not for two important facts, this comprehensive analysis would make any evaluation in this study not only unnecessary but presumptuous. These facts are, first, that, since the analysis was published in 1946, a number of significant changes have been made in the retirement laws of the states included in this study. Secondly, the analysis is intended primarily for the use of workers in the retirement field and is couched in extremely technical terms.

Therefore, an evaluation in simple terms based upon the fundamental principles of retirement systems and avoiding, in so far as possible, the technicalities of retirement procedure will not constitute a real duplication of effort. In fact, deliberately arranging this simplified material in approximately the same order as the technical material seems desirable since so doing should help any teacher (who is interested in understanding the subject more completely) to proceed from the simple tables prepared for this study to the more difficult ones of the technical study.

Arranging the material for the simplified tables in the same order as the technical ones will mean selecting the major principles to be used in this evaluation and grouping them under Financing, Eligibility Requirements, Benefits, and

Administration.

The two major principles which come under the head of Financing are the type of plan (cash disbursement, semi-cash disbursement, joint-contributory reserve, or combination of these) and the contributions required of members of the retirement system and of the state. Under Eligibility Requirements, membership privileges (compulsory or voluntary membership), requirements for regular retirement (age or years of service, or both), and out-of-state service which may be credited, will be included. The major principles which come under Benefits are the regular allowances payable on retirement, optional alternative allowances, disability requirements and allowances, prior service provisions, withdrawal privileges, and payments made in case of death while in active service. Administration would include the composition of state retirement boards, interest rates specified by law, frequency of actuarial surveys, and the source of payments for administrative expenses.

This would mean at least four tables, the last two of which would be rather long and cumbersome. It would seem that the purposes of this study would be served better by dividing the principles under Benefits into two tables and omitting the Administration table altogether. The material which would be covered by this table is not really included in the major principles. Also, the tables on these subjects in the analysis prepared by the National Education Associa-

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tion[1] are so much clearer and less difficult than any others in that pamphlet that expressing them in simpler terms is hardly possible. Therefore, a table covering the same material is not justified here.

The tables given in the National Education Association pamphlet have served as invaluable guides for this paper. However, changes which have been made in the laws analysed here since the publication of that pamphlet, made it necessary to draw the information for these tables directly from the laws of these states as of January 1, 1948 and from the informative material furnished by the state retirement secretaries. References to their state laws and tabulations of their state retirement provisions were forwarded to these state retirement board secretaries and corrected and verified by them before being included in this study.

II. State teacher retirement systems of northeastern United States

<u>Factors governing the choice of states evaluated</u>.-- The evaluation of state teacher retirement systems in this study is limited, for two reasons, to the Northeastern States (Maine, New Hampshire, Vermont, Massachusetts, Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, and Delaware). First, a more comprehensive study was possible if only a comparatively small group of states was covered and

1/ <u>Statutory Provisions for Statewide Retirement Systems</u>, <u>Op. cit</u>., pp. 43-51.

since this paper was prepared for an eastern University the states in the same section of the country seemed the most logical choice. Teachers in the northeastern group are more apt to have access to this work and it is prepared, therefore, primarily for them. Secondly, more than half of these states (Vermont, Massachusetts, Rhode Island, New Jersey, New York, and Pennsylvania) were among the very first to adopt teacher retirement systems. Historical details of the development of these systems have been presented earlier in this study and it was fitting that this information be brought up-to-date.

The special cases of Rhode Island and Delaware.-- Although both Rhode Island and Delaware belong to the northeastern group, it was not feasible to include them in any tabulation of retirement provisions because their systems are so different from those of the other states.

The description of the Rhode Island system given by the National Education Association[1] summarizes practically all the available information; the corrections, in brackets, are taken from the more recent information[2] furnished by the Rhode Island Department of Education for the present study.

1/ Statutory Provisions for Statewide Retirement Systems, Op. cit., pp. 6-7.

2/ State of Rhode Island, Department of Education, Application for Teacher's Pension, Form 151.

> For many years Rhode Island has operated a straight pension plan under the administrative control of the state director of education. The state appropriates the necessary amount when needed, but no special fund is established. Thirty-five years of service are required, twenty-five of which must have been in Rhode Island, and fifteen immediately preceding request for pension. No age requirement is set. The maximum pension is $700 [now increased to $1000] ... based upon half the average annual salary for the last five years of service. Teachers who are disabled after twenty years of service but before serving thirty-five years are granted a disability pension [a minimum of $800 has just been set] which is proportionate to the allowance which would have been available after thirty-five years of service.

Delaware presents a slightly different, but interesting problem. In the National Education Association Research Bulletin issued in April, 1945,[1] Delaware is referred to as having newly enacted a statewide plan to which teachers do not contribute. The Association publication on retirement issued the following year,[2] however, included Delaware in the tables showing the comparative provisions of joint-contributory systems -- with the notation that teachers' contributions were to begin July 1, 1947. In January, 1948, the Delaware State Department of Public Instruction furnished, for this study, a copy of the Delaware State Employees' Pension Act, enacted July 1, 1947, which covers teachers as well as other state employees and to which the employees do not contribute.

1/ <u>Statistics of State and Local Teacher Retirement Systems</u>. Washington: National Education Association, 1945, p. 29.

2/ <u>Statutory Provisions for Statewide Retirement Systems</u>, <u>Op. cit.</u>, p. 10, and ff.

Delaware, which had no statewide teacher retirement coverage prior to 1945, appears to have been going through a period which may be characterized as one of trouble making up its legislative mind. The State Pension Act,[1] now in force, provides authoritative information, however, and its provisions, as regards to teachers, may be summarized as follows:

The pension plan is under the administrative control of the State Treasurer but the amounts required for pension payments are included in the regular budgets of the respective departments and paid for from the same sources and in the same way as the regular salaries. Any teacher who has served for thirty-five years in the state may be retired, regardless of age; or women at age sixty, and men at age sixty-five, may retire if they have served fifteen years in the state. Retirement is compulsory for women at sixty-five and men at seventy.

The pension granted a retired employee is computed and paid on a monthly basis. This pension is equal to 1/70 of the monthly retiring base salary (average monthly salary for the twelve months prior to retirement) times the number of years of service, but no monthly pension may exceed $150 or be less than $50.

A disabled teacher who has twenty-five years of state service may be retired on a disability pension which is to be

1/ State of Delaware, Laws, Chapter 104, Vol. 45, as amended by the 1947 session of the State legislature.

computed at the same rate as the regular pension, but if any such teacher is able to earn compensation at any other type of occupation the pension is proportionately reduced.

Evaluation tables: I. Financing Teacher Retirement Plans.-- The methods used to finance the teacher retirement plans of the remaining northeastern states follow two main patterns. The rates of the members' contributions in five of the states are set at a definite or fixed percentage of the annual salary; in the others the rate is determined by actuarial calculation made at the time the member joins the system or based upon a graduated scale showing the rate for the sex and age of the new member. If the rate of contribution depends upon the age at which a teacher joins, an older teacher necessarily contributes at a higher rate but, since this makes possible the accumulation of a larger account, it is a desirable provision. Since the life expectancy after retirement is shorter for men than for women, the rates of such a scale are usually higher for women. The contributions from public funds are either computed by an actuary to provide a specified allowance or the law states that the members' contributions will be matched from public appropriations.

In all but two states (Connecticut and Massachusetts) the appropriation from public funds includes amounts to be paid into the reserve fund to cover pensions as a result of accrued liabilities for service (the amounts necessary to pay

prior service and disability pensions as well as the members' service pensions) and in most of the states the cost of the administration of the system is also borne by the public. "Connecticut does not recognize any potential liability insofar as its general membership is concerned, and does not make any payment to a reserve fund so long as a teacher remains in active service."1/ That is, the state does not set aside any funds in the Pension Reserve for a teacher until he actually retires. "At that time the total reserve required to pay the state's part (pension) of the retirement allowance is drawn in one sum from the biennial appropriation for the individual member reserve and deposited in the general Pension Reserve Account."2/ This sum represents the state's full liability for that teacher's prior and membership service. In Massachusetts the public funds necessary are handled on a "pay-as-you-go" basis, enough being appropriated each year to meet the current expenses and only the members' contributions are held in the reserve fund and invested.3/

In New Hampshire the annual state appropriation is

1/ Dorothy Shanley Lewis, Secretary, Connecticut State Teachers' Retirement Board to Susan C. Coyle, March 12, 1948.

2/ *Loc. cit.*

3/ State of Massachusetts, Chapter 658, Acts of 1945, amending Sections 1 to 38A of Chapter 32 of the General Laws, Section 22, subsections 1(a), 6, and 7.

limited to $26,000 a year[1] and the local employers (in all states this refers to whatever state subdivision hires the teachers) are assessed a percentage (from two to six per cent) of the annual payroll of all teachers who are members of the state retirement system.[2] This assessment is intended to cover any expenses in excess of the state appropriation and to increase the reserve fund.

In Pennsylvania the local employers and the state share equally in the cost of the system.[3] In New York only the local employers are assessed;[4] the state does not appropriate any funds directly for the retirement system.

In most of the states the member's contributions are deducted directly from the payroll and forwarded to the retirement board by the local employer.

The terms below are used in Tables I and II for the sake of brevity and their meaning is as follows:

"Average final salary" is the average of the annual salaries received for the last five years of teaching prior

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1/ State of New Hampshire, Revised Laws, Chapter 136, Section 2, subsections I and III, as amended by Laws of 1947, Chapter 146, Section 4 and Chapter 136-A as inserted by Laws of 1947, Chapter 145.

2/ *Ibid.*, Section 8, subsection IV, as amended by the Laws of 1945, Chapter 126, Section 2.

3/ State of Pennsylvania, Public Laws 698, Retirement Act as amended July 12, 1935, Section 9.

4/ State of New York, Article 11, former article 43-B as renumbered by Chapter 820 of the Laws of 1947, Section 517.

to retirement. Exceptions: In Pennsylvania this is the average of the last ten years prior to retirement;[1] and in Vermont this means the average salary for whatever ten consecutive years of creditable service the teacher received the highest compensation.[2]

"Creditable service" is the membership service plus prior service.

"Membership service" refers to the teacher's years of state service during which he was a member of the retirement system.

"Prior service" refers to the teacher's years of state service before the establishment of the retirement system.

1/ State of Pennsylvania, Public Laws 698, Retirement Act as amended July 12, 1935, Section 1, subsection 17.

2/ State of Vermont, Senate Bill No. 35, Acts of 1947 Legislature, Section 1, subsection 20.

TABLE I

FINANCING TEACHER RETIREMENT PLANS

Name of system; Date present law was established; Type of plan (1)	Contributions from members (2)	Contributions from public funds (3)
CONNECTICUT State Teachers' Retirement System July 1, 1917 Joint-contributory plan (a combination of cash-disbursement and reserve basis.)	5% of salary; minimum $35 a year.	Every two years the state appropriates the estimated amount needed to pay the life retirement incomes of those retiring during the following two-year period. This is placed in an invested reserve to meet these payments as they fall due.
MAINE State Employees' Retirement System July 1, 1947 Joint-contributory reserve plan	5% of salary. Exception: member who has reached age 65 and has 35 years creditable service may discontinue payments.	State contributions are made upon the basis of actuarial computations to provide at retirement the pensions allowed by the state.
MASSACHUSETTS Public Employees' Retirement System January 1, 1946 Single-contributory reserve plan (members' payments are held in invested reserve; state contributes on "pay as you go" basis)	5% of salary. Members may increase their payments up to $130 a year but state pension is not increased in proportion.	State annually appropriates the amount needed to meet the current year's expenses.
NEW HAMPSHIRE State Teachers' Retirement System January 1, 1938	Not to exceed 5% of salary; Minimum - $25 Maximum - $100	State annually appropriates sum (not to exceed $26,000) to match members' payments. State also

TABLE I (Continued)

Name of system; Date present law was established; Type of plan. (1)	Contributions from members (2)	Contributions from public funds (3)
New Hampshire (continued) Joint-contributory reserve plan	Member may discontinue payments after thirty years.	annually assesses local employers from 2-6% of membership payroll. Maximum number of state payments per member - 30.
NEW JERSEY Teachers' Pension and Annuity Fund September 1, 1919 Joint-contributory reserve plan	Rate fixed by actuary (depending upon sex and age at joining) is computed to produce at age 62 an annuity equal to 1/140 of average final salary times years of membership service. New members may make additional payments to increase allowance or retire earlier, or may make lump sum payment to reduce deductions.	State annually appropriates amount per member (as computed by the actuary) to provide at retirement the pensions allowed by the state.
NEW YORK State Teachers' Retirement System August 1, 1921 Joint-contributory reserve plan	4% of salary for all who are members before July 1, 1948. 5% for all who become members after that date. Member may discontinue payments after 35 years or at age 60 if he has 25 years of state service. At retirement, or when the Board permits, a member or an annuitant may make a	Local employers pay annually an amount per teacher to meet the expected benefits. This amount is fixed by an actuary.

(continued on next page)

TABLE I (Continued)

Name of system; Date present law was established; Type of plan. (1)	Contributions from members (2)	Contributions from public funds (3)
New York (continued)	lump sum payment for additional annuity not to exceed ½ final average salary. From July 1, 1948 to June 30, 1953 a member may once in any school year deposit an amount not in excess of 4% of the previous year's salary toward an additional annuity.	
PENNSYLVANIA Public School Employes' Retirement System July 1, 1919* (System became operative) Joint-contributory reserve plan	Rate fixed by actuary (as New Jersey) computed to produce at age 62 an annuity equal to 1/160 of average final salary times years of membership service.	State and local employers match these payments (the cost being divided equally) to produce for member at age 62 state annuity exactly equal to 1/160 average final salary times years of membership service.
	*(Law was enacted July 18, 1917)	
VERMONT State Teachers' Retirement System July 1, 1947 Joint-contributory reserve plan	Rate fixed by actuary (also as New Jersey) to produce at age 60 an annuity equal to 1/140 of average final salary times years of membership service.	State matches these payments; Maximum number of payments per member - 35.

Evaluation tables: II. Eligibility Requirements of Teacher Retirement Systems.-- The membership privileges of the retirement systems of the Northeastern States are very similar. The new Maine law is an exception in that it makes membership compulsory for all.[1] In the other states membership is compulsory for new teachers but teachers in service at the time the system was established were allowed to join or not as they wished. Prior service credit which is withheld from those who do not join the system within a limited time is a strong factor in increasing the voluntary membership.

While the out-of-state service provisions themselves vary considerably, the procedures are much the same. In most states out-of-state credit must be paid for. Purchasing out-of-state credit involves, first, making application for such credit on the form provided by the state within the minimum time stipulated by law. (This is usually within one year after joining the system.) A certificate from the state (or states) where the out-of-state service was performed must accompany this application. Then the applicant must pay into his retirement account a sum of money equivalent to the contributions and interest he would have paid to the state system he is joining if he had been a member of

1/ State of Maine, Chapter 60, Revised Statutes, 1944, as amended by Chapter 384, Public Laws of 1947, Section 3, subsections I and II.

that system during the years for which he wishes to purchase credit.

The privilege of claiming out-of-state credit is practically nullified in many states by the requirement that the total payment must be made within one or two years after the teacher joins the system. Even a teacher who has withdrawn his contributions from the retirement system of the state from which he is transferring is not always in a position to pay the amount required to purchase equivalent credit in the new system.

In Connecticut the out-of-state service credit given teachers in membership service before July 1, 1929 amounts to prior service credit.[1] Any teacher who was a member of the Connecticut system prior to or at that time and who will have been a member for twenty years (this includes leaves of absence such as military leaves) will be credited with all of the out-of-state service he performed prior to joining the Connecticut system and the state will pay for this service in the same way it pays for the prior service granted to teachers in Connecticut service before 1917.

1/ State of Connecticut, Chapter 270, Section 2, Public Acts 1919 and Chapter 183, Section 2, Public Acts 1929 amending Section 1019 of the General Statutes.

TABLE II

ELIGIBILITY REQUIREMENTS OF TEACHER RETIREMENT SYSTEMS

State Membership privileges (1)	Requirements for regular retirement (2)	Out-of-state service credit (3)
CONNECTICUT Compulsory for all new teachers; voluntary for teachers in service prior to June 30, 1917.	Compulsory retirement age - 70. Member who joined prior to July 1, 1929 may retire after 5 years of membership if he is 60 and has 15 years of service, or regardless of age, if he has 35 years of service, 20 of which including the last 5 preceding retirement were in the state. Member who joined after that date may retire after 5 years of membership if he is 60 and has 20 years state service or, regardless of age, if he has 35 years of service, 25 of which including the last 5 preceding retirement were in the state. Out-of-state service cannot be counted in meeting years of service requirement.	A. Teachers in membership service prior to July 1, 1929 are granted, on completion of 20 years state service, full credit for all out-of-state service without assessment. B. Ten years of out-of-state service may be purchased by those entering state service after July 1, 1929. Payment must be made within two years.
MAINE Compulsory for all.	Compulsory retirement age - 70. Voluntary retirement age - 60.	Ten years of out-of-state credit may be purchased provided that at retirement member shall have served 20 years in the state the last 10 of which shall be subsequent to such out-of-state service.

TABLE II (Continued)

State Membership privileges (1)	Requirements for regular retirement (2)	Out-of-state service credit (3)
MASSACHUSETTS Compulsory for new teachers (except those over 55 who are ineligible) Voluntary for teachers in service prior to July 1, 1914. (These must join before Jan. 1, 1949 and pay for years between if they now wish to become members.)	Compulsory retirement age - 70. Voluntary retirement age - 60.	Ten years of out-of-state service may be purchased. Payment must be made no later than Jan. 1, 1951 for teachers in service and within five years for new members.
NEW HAMPSHIRE Compulsory for all teachers not in service July 1, 1946 to July 1, 1947.	No compulsory retirement age. Member who has 15 years of creditable service may retire at age 60, if a woman, or at age 65, if a man.	No provision. (Note: - This is one of the provisions listed for inclusion in the new state retirement law now in preparation.)
NEW JERSEY Compulsory for new teachers; voluntary for those in service prior to Sept. 1, 1919.	Compulsory retirement age - 71. Voluntary retirement age - 62. Member who has 35 years of service, the last 25 of which are in state may retire regardless of age.	Ten years of out-of-state service may be purchased. Payment must be made or an increased rate of deduction agreed upon within one year from enrollment date.
NEW YORK Compulsory for new teachers; voluntary for those in service prior	No compulsory retirement age but local board of education may apply for retirement of any teacher aged 70. Members may retire at 60 if they have 25 years of state service;	Ten years of out-of-state service may be purchased. Application and partial payment must be made within one year. The

TABLE II (Continued)

State Membership privileges (1)	Requirements for regular retirement (2)	Out-of-state service credit (3)
New York (continued) to Aug. 1, 1921. (Teacher who withdraws from state and is reemployed later is considered new entrant.)	after 35 years of service regardless of age; or at age 70 regardless of years of service. Out-of-state service may be counted in meeting 35 year requirement.	balance may be paid in installments as arranged between member and board.
PENNSYLVANIA Compulsory for all teachers entering state service after July 18, 1917.	Compulsory retirement age - 70. Voluntary retirement age - 62 with ten years of state service.	Member may purchase credit for all out-of-state service performed. Payment is made in one lump sum at time application for such credit is accepted.
VERMONT Compulsory for all teachers except those in service July 1, 1947 who within 75 days thereafter file election not to become members. (New teachers required to join local system may be exempted.)	Compulsory retirement age - 70, after 1952. (Between 1947 and 1952 teachers over 70 may remain in service if their local school boards request an extension of service. Such extensions granted for one-year periods by Board of Trustees of the Retirement System.) Voluntary retirement age - 60.	Teacher entering state service may purchase out-of-state credit. Amount which may be purchased is limited only by stipulation that teacher at age 60 shall have not more than 35 years service credited, including out-of-state service. (Lump sum payment or increased deductions.)

Evaluation tables: III. Benefits Provided by State Retirement Systems.-- The vocabulary which must be used in describing the computation of retirement allowances, if the explanations are to be clear and also brief, is not very difficult but should precede any discussion.

The following new terms are used in Tables III-A and III-B:

"Accumulated contributions" or "accumulations" refers to the member's own total contributions and the term includes the interest thereon except in the column where withdrawal privileges are given. In this column the interest refunded is specified because of the variations in procedure.

"Annuity" means the retirement allowance which is based on the member's contributions only.

"Pension" means the retirement allowance based upon public funds.

"Regular retirement allowance" is used in the tables in place of the somewhat more customary "Superannuation benefit" and means the full allowance granted a retired teacher including annuity, pension, and prior service allowance, if any.

The following terms, explained in connection with the preceding tables, are used again in Tables III-A and B:

"Average final salary" meaning the average of the annual salaries received for the last five years of teaching prior to retirement. (Exceptions: Pennsylvania - last ten years;

Vermont - any ten years of highest compensation.)

"Creditable service" meaning the membership service plus prior service.

"Membership service" meaning the teacher's years of service in the state during which he was a member of the retirement system.

"Prior service" meaning the teacher's years of state service before the establishment of the retirement system.

The fundamental computations of retirement allowances are really much the same in these states although minor variations tend to make them appear different. A single monthly check is mailed to the retired teacher but the total allowance from which this payment is made usually represents a combination of two or three separate allowances.

The annuity is whatever the total of the teacher's own accumulated contributions will purchase at the time of his retirement. This depends upon the sum of his contributions and interest, the age at which the teacher retires, and the teacher's sex. As the life expectancy of women after retirement is greater than that of men, the same total would purchase a larger annuity for a man than for a woman.

If the state pension is based on state contributions which regularly matched those of the member, it will double the annuity, unless the member's accumulations include a purchase of out-of-state credit which was not matched by the

state. If, however, the state pension is based upon a formula guaranteeing a certain percentage of the average final salary, it will vary according to that percentage and the number of years of service credited to the teacher.

In addition to these two allowances, teachers who are eligible for prior service credit receive a third allowance (an additional state pension) based on the percentage of salary allowed and the number of years of such service which is credited to the teacher.

All of these states allow the retiring teacher the privilege of selecting an optional allowance in place of the regular allowance and, in a number of states, this privilege applies to disability allowances as well. The regular allowance which ceases at the death of the retired member is larger than any of the alternative allowances can be but the teacher who has a dependent may prefer to accept the smaller allowance in order to provide for that dependent.

Most of the states offer the same three options. Option I provides a smaller allowance for the member but whatever amount remains in his own account at his death is paid in one lump sum to his estate or beneficiary. Option II also provides a smaller allowance but this allowance is paid, after the member's death, to the beneficiary for the remainder of the beneficiary's lifetime. Option III differs from Option II only in that it provides an allowance to be paid to the beneficiary (after the member's death) half as

large as that received by the member. The options offered by the states of New York[1] and New Hampshire[2] differ in two important ways. Their Option I provides that, at the death of the member, any balance remaining of the total reserve (this includes the state's share, not just the member's accumulations as in the usual Option I) will be paid in a lump sum to his estate or beneficiary. New York also offers a fourth option which permits the member to select any other benefit or benefits which are the actuarial equivalent (see below) of the usual retirement allowance and approved by the Board. Maine[3] and Pennsylvania[4] also offer this fourth option allowing the selection of any other benefit which is the actuarial equivalent of the regular retirement allowance. The term "actuarial equivalent" simply means that the alternative benefit selected must not exceed in purchase price that of the usual allowance offered. This is equally true of all the other alternatives, of course. When a teacher retires, the total value of his retirement account (including all credits) is figured. This amount does not change but

1/ State of New York, Article 11, former article 43-B as renumbered by Chapter 820 of the Laws of 1947, Section 513.

2/ State of New Hampshire, Revised Laws, Chapter 136, Section 13, subsection 2.

3/ State of Maine, Chapter 60, Revised Statutes, 1944, as amended by Chapter 384, Public Laws of 1947, Section 10.

4/ State of Pennsylvania, Public Laws 698, Retirement Act as amended July 12, 1935, Section 15.

large as that received by the member. The options offered by the states of New York[1] and New Hampshire[2] differ in two important ways. Their Option I provides that, at the death of the member, any balance remaining of the total reserve (this includes the state's share, not just the member's accumulations as in the usual Option I) will be paid in a lump sum to his estate or beneficiary. New York also offers a fourth option which permits the member to select any other benefit or benefits which are the actuarial equivalent (see below) of the usual retirement allowance and approved by the Board. Maine[3] and Pennsylvania[4] also offer this fourth option allowing the selection of any other benefit which is the actuarial equivalent of the regular retirement allowance. The term "actuarial equivalent" simply means that the alternative benefit selected must not exceed in purchase price that of the usual allowance offered. This is equally true of all the other alternatives, of course. When a teacher retires, the total value of his retirement account (including all credits) is figured. This amount does not change but

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1/ State of New York, Article 11, former article 43-B as renumbered by Chapter 820 of the Laws of 1947, Section 515.

2/ State of New Hampshire, Revised Laws, Chapter 135, Section 13, subsection 2.

3/ State of Maine, Chapter 60, Revised Statutes, 1944, as amended by Chapter 384, Public Laws of 1947, Section 10.

4/ State of Pennsylvania, Public Laws 892, Retirement Act as amended July 12, 1935, Section 15.

the annual income which can be realized from it will vary according to the alternative selected. Whatever form of allowance is preferred will only be as large as (the "actuarial equivalent" of) the purchasing power of his total account permits.

Although the number of years of membership service required before a teacher can qualify for a disability allowance ranges from five to twenty and the state pensions included in these allowances are computed in a number of ways, here again there is similarity of procedure. To qualify for a disability allowance (in addition to the years of service required) the member must be permanently incapacitated for teaching. The certificate of disability required as proof of this incapacity must be obtained from an approved physician or medical board. Although this requirement is not listed in the table under some states, because the available information was not specific on this point, it is safe to assume that it is generally required. Regular re-examinations are often required each year for the first five years the disability allowance is paid or until the retired member reaches the usual retirement age.

If the member, although incapacitated for teaching, can work at some other occupation, his earnings (or even his capacity to earn if he could work but should refuse to do so) may reduce his disability pension.

Prior service credit is granted when a retirement system

is established to provide adequate allowances for teachers already in service who would not be able, during the remainder of their service, to build up total accounts sufficient to purchase adequate annuities. The amount of such service credit granted varies according to the resources of the state at the time the plan is inaugurated and the number of teachers near the usual retirement age who must be provided for immediately. Allowances for prior service are computed to provide as nearly as possible the approximate amount the teacher would have received if the retirement system had been in operation during all his years of service.

All the Northeastern States permit the teacher who is dismissed or who resigns to withdraw his total payments with all or most of the interest earned by them. Massachusetts offers a member who has twenty years of state service credited the choice of a deferred annuity rather than a cash refund.[1/] Connecticut offers instead a refund annuity to members who have ten years of service,[2/] and Pennsylvania will pay either a deferred or refund annuity, if desired, without any years of service requirement.[3/] Refund annuities are paid from the

1/ State of Massachusetts, Chapter 658, Acts of 1945, amending Sections 1 to 38A of Chapter 32 of the General Laws, Section 10, subsections 2 and 3.

2/ State of Connecticut, Retirement Law, Public Acts of 1917, Chapter 411.

3/ State of Pennsylvania, Public Laws 698, Retirement Act as amended July 12, 1935, Section 12, subsection 1,b.

time of the teacher's withdrawal from the system while deferred annuities are paid when the teacher notifies the state in question of his final retirement.

TABLE III-A

BENEFITS PROVIDED BY STATE RETIREMENT SYSTEMS

State	Regular retirement allowance	Optional alternative allowances
CONNECTICUT	Annuity purchasable by member's accumulations and a state pension equal to this annuity. Member who has 20 years of service receives additional pension large enough to make total allowance equal to 40% average final salary. This pension increased by 1% for every year of service over 20. Maximum total allowance - 70% average final salary; minimum - $500. (State pension increased if member's annuity less than $250.) Out-of-state service included in total number of years credited to members in service prior to 1929 provided they have rendered 20 in the state.	Option I: A smaller monthly annuity to the member but any balance of member's own account remaining at his death is paid in one lump sum to his estate or to his beneficiary. Option II: A smaller monthly allowance and the same allowance paid after member's death to the beneficiary for the balance of beneficiary's lifetime. (Note: In I the annuity, but not the pension is reduced; in II, both are reduced.)
MAINE	Annuity purchasable by member's accumulations plus a state pension equal to 1/140 average final salary times years of membership service, plus a prior service pension if eligible.	Options I and II as above, plus: - Option III: A smaller monthly allowance to member and an allowance one-half as large to the beneficiary. Option IV: Any other benefit which is the actuarial equivalent of regular allowance.
MASSACHUSETTS	Plan A - Maximum allowance paid is 80% of average salary during whatever five years subsequent to June 30, 1932 member received highest compensation. If member retires between ages of 65 and 70, allowance is computed as follows: for service prior to July 1, 1937, 2% of average salary (not exceeding $2600) for the preceding five years; for service from July 1, 1937 to Dec. 31, 1945, 2% of the actual salary for each year	Plans B and C are the same as Options I and II above.

TABLE III-A (Continued)

State	Regular retirement allowance	Optional alternative allowances
Massachusetts (continued)	(not exceeding $2600); for service after Jan. 1, 1946, 2% of actual salary (no limit). If member retires before age 65, allowance is proportionately reduced.	
NEW HAMPSHIRE	Since the state's payments match the member's payments exactly, the two represent equal halves of one whole and the entire account is used to purchase the annuity which provides the member's allowance. Prior service allowance is added to this if member is eligible. Maximum allowance if payment is made for prior service is one-half average final salary.	One option - a smaller monthly allowance but any balance remaining in the entire account at member's death is paid in one lump sum to his estate or to his beneficiary.
NEW JERSEY	Member's contributions are fixed by actuary at a level to produce at age 62 an annuity equal to 1/140 average final salary times his years of service. The state pays a pension figured on the same basis. If a member retires before age 62, his allowance is proportionately reduced; if he retires later, it is increased. State also pays additional pension for prior service if member is eligible. Total allowance for typical member is half-pay, but this is not guaranteed by the state.	Member is allowed four options. Option I is the usual lump sum payment of any balance of the member's account at death to his estate. Options 2, 3, and 4 are described only as providing "survivorship incomes" but probably very closely resemble those offered by Maine and Pennsylvania.
NEW YORK	Annuity purchasable by member's accumulations plus a state pension equal to 1/4 average final salary (or average of any ten consecutive years of credited service) unless service is less than 25 years in which case pension is 1/100 average final salary times years of service. Additional pension for prior service if member is eligible.	Member is allowed four options. Option I is the same as New Hampshire, Options II, III, and IV the same as in Maine except that two alternatives are suggested. Option IV-A is the usual Option I; B is a smaller allowance to member and allowance 1/4 as large to beneficiary.

TABLE III-A (Continued)

State	Regular retirement allowance	Optional alternative allowances
PENNSYLVANIA	Employee's annuity purchasable by member's accumulations plus a state annuity (pension) equal to 1/160 average final salary times years of membership service, plus a further state annuity for prior service, if eligible, computed on the same basis as the state annuity.	Member is allowed four options. These are the same as in Maine (see first page of this table.)
VERMONT	Annuity purchasable by member's accumulations plus a state pension equal to 1/140 average final salary times years of membership service (up to 35 years), plus prior service pension, if eligible. Limitation: Years on which state pension (including prior service pension) is computed not to exceed 35 years. Allowance for typical member serving full 35 years intended to equal one-half average annual salary for ten highest paid years of service.	Member is allowed usual first three options. These apply to disability allowance as well as to regular retirement allowance.

TABLE III-B

BENEFITS PROVIDED BY STATE RETIREMENT SYSTEMS

State	Disability requirements and allowance (1)	Prior service provisions (2)	Withdrawal* privileges (3)
CONNECTICUT	Requirements: Five years membership in retirement system and ten years of state service as well as certificate of disability. Allowance: 1/70 average final salary times years of service. Pension may not exceed pension member would receive on regular retirement. (State makes up the difference between what member's account will purchase and allowance provided above.)	Full credit for all state service rendered prior to establishment of system (1917) to members in service at that time. Prior service pension computed at same rate as regular state pension. (see also "out-of-state service", provision A, Table II)	Member may withdraw his own payments plus interest at one-half per cent less than the regular interest for the previous year. Alternate privilege: Member who has ten years membership service may elect refund annuity in place of cash refund. *Refund in case of death includes the regular interest.
MAINE	Requirements: Ten years of creditable service and a certificate of disability. Allowance: Annuity from member's accumulations plus a state pension the total allowance to equal 90% of 1/70 of average final salary times	Teachers who were members of system or who join before July 1, 1950 receive credit for all teaching service prior to July 1, 1947.	Member may withdraw his own payments plus not less than 3/4 of the regular interest.

*Refunds made in case of resignation or dismissal. Unless it is otherwise indicated, the same amount is paid to the member's estate or beneficiary if he dies in active service.

TABLE III-B (Continued)

State	Disability requirements and allowance (1)	Prior service provisions (2)	Withdrawal privileges (3)
Maine (continued)	years of creditable service or an allowance at least in excess of 25% of average final salary. Otherwise pension increased until it provides (with annuity) allowance equal to 25% average final salary (but such allowance not to exceed 90% of 1/70 of average final salary times years of service he would have to his credit if he retired at age 60)	Prior service allowance equal to 1/70 average final salary times years of such service credited. (In addition, pensions granted under old system are continued.)	
MASSACHUSETTS	Requirements: 20 years of creditable service. Allowance: the same a member would have received if he retired at age 55 with the years of service rendered prior to retirement for disability. (Special provisions for veterans.) Member on disability pension may choose Options A or B.	All teaching service prior to July 1, 1914 is credited. (See regular allowance for method of computation for service prior to July 1, 1937. This method used for prior service pension.)	Member may withdraw his payments plus interest. Alternate privilege: If member is under age 55 and has 20 years service he may elect a deferred annuity in place of cash refund.
NEW HAMPSHIRE	Requirements: Ten years of creditable service and a certificate of disability Allowance: Annuity from member's accumulations plus an additional allowance (state) which may be granted at the discretion of the retirement board. Total allowance limited to one-half average final salary. Member's earning capacity in other fields is considered in granting the additional allowance.	Prior service up to 30 years is credited to those who were members Dec. 31, 1944, or joined before Dec. 31, 1945. Prior service allowance based on a sum of money credited to member's account at retirement, computed by taking 8% of average salary for the five year period 1939-44, times	Member may withdraw his payments and interest.

TABLE III-B (Continued)

State	Disability requirements and allowance (1)	Prior service provisions (2)	Withdrawal privileges (3)
New Hampshire (continued)		years of service (not to exceed 30) performed prior to that date, plus the annual interest the total would have earned at 3%. Special provision is made for those absent on military leave 1944-45 and teachers in public academies who became eligible for membership July 1, 1947.	
NEW JERSEY	Requirements: Ten years of membership service. Allowance: Annuity from member's accumulations plus a state pension sufficient to make total allowance equal to 1/70 average final salary times years of service. Minimum disability allowance $300 or 30% of average final salary. Maximum 9/10 of allowance member would receive at age 62 (regular retirement).	Prior service up to 35 years (of which ten may be out-of-state if purchased by member) credited to those in service in 1919. Ten years prior service for those who began state service after Sept. 1, 1919. Prior service pension equals 1/70 average final salary for members in service prior to 1919, 1/140 for members who entered state service after that date, times years of such service credited.	Member may withdraw his payments with $3\frac{1}{2}\%$ interest to June 1, 1944; at 2% thereafter. In case of death before retirement payments are refunded with $3\frac{1}{2}\%$ interest.

TABLE III-B (Continued)

State	Disability requirements and allowance (1)	Prior service provisions (2)	Withdrawal privileges (3)
NEW YORK	Requirements: Fifteen years of membership service for teachers who entered after Aug. 1, 1921; and certificate of disability. Allowance: Annuity from member's accumulations plus state pension equal to 1/5 average final salary. Maximum state pension 4/5 of regular allowance member would receive if he retired at age 70 with less than 25 years service. Prior service pension is included in disability pension if member is eligible. (Options apply to disability allowances.)	Full prior service granted to teachers in service prior to Aug. 1, 1921 who joined by May 1, 1924 or entered with like qualifications, with membership in a local retirement system, and whose membership has been continuous. Additional pension equals 1/140 average final salary for each year prior service.	Member may withdraw his payments with regular interest
PENNSYLVANIA	Requirements: Ten years of membership service; member must be under age 62. Certificate of disability and disability application approved by Sup't of Schools. Allowance: Annuity from member's accumulations plus a state annuity - total allowance to equal at least 1/90 average final salary times years of service. Minimum allowance 30% average final salary unless this exceeds 8/9 regular allowance member would receive at 62. Option I permitted.	Full prior service to those in service before July 18, 1917. Prior service allowance equals 1/160 average final salary times years of such service	Member may withdraw his payments plus interest or elect either a deferred or refund annuity.
VERMONT	Requirement: Fifteen years of creditable service. Allowance: Annuity from member's accumulations plus a state pension equal to 9/10 of pension member would receive	Prior service credit granted those in service prior to July 1, 1947 who are members or join before June 30,	Member may withdraw his payments less not more than 1/3 of the interest. In

TABLE III-B (Continued)

State	Disability requirements and allowance (1)	Prior service provisions (2)	Withdrawal privileges (3)
Vermont (continued)	on regular retirement.	1948 with this limitation: total years on which state pension (including prior service pension) is computed not to exceed 35 years. Prior service pension equals 1/70 average final salary (not to exceed $1800) times number years prior service.	case of death before retirement member's payments and regular interest are refunded to his estate.

CHAPTER VI

PRESENT RETIREMENT PROBLEMS AND PROBABLE FUTURE TRENDS

I. Present problems

Present-day state teacher retirement problems which fall most logically under the scope of this study are those which are general in their application and, at the same time, of personal concern to all teachers. One problem, receiving quite widespread publicity at present, is the need for retirement legislation to provide for the migratory teacher. A trend toward shorter professional lives and earlier retirement, which has appeared in recent years, causes retirement officers concern as this may well serve to further complicate an already serious and involved situation necessitating financial adjustments along several lines. This situation is composed of three problems, all related and all requiring adjustment of financial provisions. Economic conditions, as reflected in higher prices, have not only emphasized the need for many states to increase inadequate retirement allowances but have also forced many previously adequate retirement incomes below the subsistence level. Lowered interest earnings, continued now over a long period, have resulted in a serious reduction in the expected return on retirement investments thus invalidating former actuarial calculations regarding the

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amount of accumulated capital needed to provide an adequate retirement income. Finally, changes in mortality rates, so marked as to necessitate the preparation of new mortality tables, have invalidated as well the mortality tables upon which the purchase of retirement annuities has heretofore been based. These problems will be discussed in this chapter in the order mentioned.

The problem of the migratory teacher.-- During the last decade retirement officials have become very conscious of the need for some type of reciprocal arrangement between state retirement systems to provide for those teachers who transfer from one state to another. Heretofore, except in those states which permitted a purchase of out-of-state credit, many transferring teachers have forfeited all the retirement credit earned in the states where they formerly served.

In 1946 the National Council for Teacher Retirement, whose members represent all teacher retirement systems, appointed a Reciprocity Committee to study this question. The latest report of that Committee points out that the most serious hurdle is presented by the legal barriers, especially state constitutional limitations. This difficulty, together with the great variations still existing between the state systems, caused the Committee to suggest a possible solution which would not involve actual transfer of credit or contri-

butions between states.[1] This is explained in the following excerpt:

> It has been suggested that the basic problem of reciprocity is probably best solved by each retirement system adopting the deferred annuity plan, supplemented by permitting members to purchase credit for service in other states when not eligible for a deferred annuity for service involved. If each state system had a deferred annuity plan, the problem would be solved, each state paying the cost of its own service. The purchase plan would then automatically be abolished.
>
> A good deferred annuity plan should probably provide:
>
> 1. That members with minimal experience for age retirement shall retain all original membership rights as long as they are employed as public-school teachers anywhere in the United States.
>
> 2. That in calculating a deferred annuity the interest rate and all the other details of computation should be those used in computing any other annuity or benefit.
>
> 3. That service in any teacher retirement system in the United States should be deemed service as a "teacher" for the specific purpose of making the transferred teacher ineligible for refund of contributions from a state having a deferred annuity plan.
>
> 4. That interruptions in service as a teacher allowed in one state should apply also to interruptions in service in other states.
>
> 5. That members should be eligible for refunds from any system only if service in the public schools of that state is less than five in any consecutive ten years. Applications for refund and withdrawal should contain an affidavit stating that the member is no longer employed as a "teacher" in the public schools of any state.
>
> A good plan for purchasing service credit (including prior and membership service) probably should provide:

1/ Report of the Committee on Reciprocity, Ray L. Lillywhite, Utah, Chairman, presented at the National Council on Teacher Retirement Meeting at Atlantic City, February 23, 1948. From a mimeographed copy of the report, pp. 4-6.

1. That fixed amounts such as $75 or $100 be paid for each year of credit purchased.

2. That benefits emanating from such purchases be exactly the same as benefits emanating from deductions from salaries of members.

3. That such purchases should be permitted at any time before qualifying for a retirement allowance.

4. That no such purchases may be made by an entering member who left a retirement system having a deferred annuity plan under which he will be eligible for a benefit.

Several states now offer reciprocity in some limited form such as giving credit for a certain amount of prior service teaching done in another state, or permitting an incoming teacher to purchase additional annuity. Some states now provide a deferred annuity. ...

All teacher retirement funds should provide plans whereby a teacher who has served in more than one state may be able, with no more than a limited and equitable penalty, to obtain a retirement allowance, when he meets qualifications for retirement, based upon total public-school teaching service and comparable to the allowance provided for the same number of years within the state where service has been rendered, had the teacher remained in one state for the total number of years of public-school teaching.

These proposals are now under consideration by retirement officers in the various states. As has been pointed out by the Reciprocity Committee, a joint program with which each state system concurs but which can be carried out by each state separately, is the best solution at present.

Liberalizing retirement plans.-- In recent years a trend toward shorter professional lives for teachers has manifested itself from several sources. The raising of professional standards has made necessary a longer and more intensive period of training and this has automatically raised the age

at which a person can be prepared to begin teaching. The spread of retirement systems, making retirement possible for teachers at age 60 or 65 instead of at 70, or when their health rendered any further service impossible, has also tended to shorten the teaching span. This latter tendency has been offset somewhat by the fact that, generally, the longer a teacher remained in service the better the income he received upon retirement, but there has been considerable agitation quite recently for liberalization of the systems in order to make earlier retirement possible without substantially reducing the promised incomes.

Amendments proposed to accomplish this usually involve reducing the retirement age (or service requirement) and increasing the benefits payable. A review of the two main types of retirement systems (from the standpoint of benefits) will make it easier to show clearly the probable cost of such liberalization. George B. Buck, consulting actuary of the New York City system, draws a very clear picture of these in the following explanation:[1]

> In general, two types of benefit predominate. Under one type, the retirement allowance is wholly determined by the amount of accumulated contributions of the member; in the other, the part provided by the state or public funds is set independently of the member's contributions at some fixed proportion of his average final compensation. ...

1/ George B. Buck, "Cost of Liberalizing Retirement Plans," <u>National Council for Teacher Retirement Proceedings</u>. Washington: National Education Association, 1947, pp. 5-6.

Under a plan ...[of the first type] each member contributes ...[a certain per cent] of her salary to the system. The contributions are credited to her account and accumulated at interest. ... If she continues in service to ...[the voluntary retirement age] she may retire at any time thereafter, and on retirement, the funds accumulated in her account are used to provide an annuity for her for the balance of her life. ... Under this type of plan, the State contributes on account of the teacher an amount to provide a pension which will match the annuity produced by her savings. ...

[Under the second type of system] teachers do not pay a uniform percentage contribution rate, but each teacher pays a rate of contribution fixed according to her age at entrance, the rates being graded from about 4.45 per cent for a woman teacher becoming a member at age 25, to 5.77 per cent at age 40.

The use of graded rates comes from the fact that [this type of system] ... [sets] as a goal a retirement allowance of one-half the average salary of the last ten years of service for a teacher who teaches from age 25 to age 60, or a period of 35 years, with the benefit proportionally increased or reduced for greater or shorter periods of service. On this basis the allowance approximates 1/70th of average final compensation for each year of service. If the teacher is to provide approximately one-half of this allowance she must contribute a percentage of her compensation computed to build up on the basis of normal salary increases, an annuity of one-half the 1/70th rate, or 1/140th of the average final salary for the last ten years of service for each year of contribution. The pension payable by the public ... [is] set at precisely 1/140th of the average salary of the last ten years of service for each year of contribution. Naturally, the annuity of approximately 1/140th of salary, plus the pension of 1/140th give an allowance of about 1/70th of salary for each year of service, and a teacher with 35 years of service receives about 35/70ths, or half the average final salary as a retirement allowance.

The difference between the two types of plans ... is that in the ... [first] the contributions of the teacher and their interest accumulations determine the amount of both the annuity and the pension. In the ... [second] the pension, that is, the part of the retirement allowance provided from public contributions, is not dependent on the annuity provided by the teacher's contributions but is a fixed proportion of average final compensation.

[illegible] systems. These conditions are [illegible] [illegible] [illegible] [illegible] the [illegible] for the balance of [illegible] [illegible] the state [illegible] provide a pension which will [illegible] by the [illegible] age.

[illegible]

[illegible]

[illegible]

[illegible]

Although age 60 is a comparatively low retirement age and amendments are more often proposed to reduce the retirement age to 60 rather than below, it can be assumed -- in order to continue with the example as given -- that the proposed amendment would lower the retirement age to 55 and increase the benefit one-sixth.

If the retirement age is so lowered in either type of system, the teacher's period of contribution would be reduced by five years, so, unless the rate of contribution is increased, the total amount accumulated, at retirement, would be less. Also, the length of time during which the annuity would be paid would be extended five years.

In the first type of system, if the teacher's rate of contribution was not increased, the annuity and matching state pension, payable five years earlier to extend over a period five years longer, would be reduced by at least one-third.[1/]

As Mr. Buck points out:[2/]

> If we apply such an age change to the ... [second type of] system, and continue our benefit at the 1/70th rate so that a teacher at age 55 after 30 years of service will receive a benefit at the same rate as is now received by a teacher at age 60 after 35 years of service, the result is different. The contributions for thirty years preceding the earlier retirement age would not produce the benefit and the contribution rate would need to

1/ George B. Buck, Op. cit., pp. 6-7.

2/ Ibid., p. 8.

be increased. Although the teacher retiring at age 55 after 30 years of service might receive only 30/70ths of average final compensation, instead of 35/70ths which would have been expected had she continued in service to age 60, nevertheless, this proportionate arithmetical reduction does not offset the increased cost for the reduced retirement age and a substantial increase in contributions is needed. For the age change alone, the increase in contribution rate of the teachers may be, say, 22 per cent., and for those of the State, 16 per cent.

To increase the allowance one-sixth in either system would, obviously, result in increased costs. In the first type of system the teacher's rate of contribution would have to be changed from 4% to 4 2/3% and that of the State increased 16 2/3%. In the second the benefit would have to be changed to 1/60th and the cost to both teacher and public would be increased 16 2/3%.[1/]

To combine the reduction in age and the increased rate of benefit would, according to Mr. Buck's figures, mean in the first type of system that "the increase in the State's cost would be somewhat over 16 2/3 per cent, let us say, 20 per cent,"[2/] and in the second type of system "the increase would be the combination of 16 per cent for the age change and 16 2/3 per cent, for the benefit change, or an overall increase of about 35 per cent."[3/] He goes on to point out,

1/ George B. Buck, Op. cit., p. 8.

2/ Loc. cit.

3/ Ibid., pp. 8-9.

first, that "this increase seems reasonable when you think that the aggregate contributions have been reduced by, say, a sixth, interest credit reduced by, say, a third, and that more than a fourth has been added to the length of the period over which annuity payments are to be made."[1/] Also that "the accrued liability would ... be increased and my figures are indexes only of overall continuing normal cost changes, showing that the ... [first] type of plan may be liberalized with less adjustment in cost to the public than a plan of the ... [second] type, which calls for a pension of a fixed amount."[2/]

Naturally, Mr. Buck means that the costs are reasonable for the changes involved but he does not mean that such an increase in cost is necessarily practicable. This is clearly indicated when he explains that -- [3/]

> Time after time, actuaries have been required to compute the cost of such benefits because uninformed teachers bring demands for such benefits into their association meetings and they have so much popular appeal that the officers of the associations are required to have cost estimates prepared, despite the fact that figures are available in many systems, all indicating the terrific costs of such provisions.

As mentioned earlier, such proposals harass retirement officers not only because the costs involved are too severe

1/ George S. Buck, Op. cit., p. 9.

2/ Loc. cit.

3/ Loc. cit.

for most systems to contemplate but because other conditions now affecting the systems are already increasing the costs and have made or will make increased rates of contribution from both teachers and public necessary without any question or possibility of lowering the present retirement age.

Inflated costs affecting retirement incomes.-- Economic conditions, as reflected in the continued rise in prices, have affected all types of incomes, especially those which, like teachers' salaries, have been increased only very slowly. The effect upon incomes of retired persons has been perhaps the most drastic. Even the older, stronger teacher retirement systems which had been able to set retirement allowances at figures which normally would have been adequate, have seen rising costs reduce many of the smaller retired incomes to below the subsistence level. Additional public appropriations have been sought to increase the allowances being paid to teachers already retired. Since this involved a statutory amendment increasing the incomes by some slight percentage, where these amendments and/or appropriations were refused the situation could not very well be relieved. Increases in salaries for teachers in service have resulted in automatic proportionate increases in contributions where the rate is set at a percentage of salary, and in those systems where the rate of contribution depends upon actuarial calculations based on the estimated final salary, a readjustment of those rates

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has had the same effect. There are definite indications that these increases will not be sufficient to provide adequate incomes for teachers now nearing the retirement age unless these teachers are able to continue teaching enough years more for the increases to be reflected substantially in their retirement benefits. There are, however, two other influences involved which require explanation before the whole economic picture, as it effects retirement, can be made clear.

In the original, simplified explanation of the "insurance formula for financial soundness"1/ the point stressed was the relationship between the amount of contribution per teacher and the promised retirement income since the failure to recognize this fundamental relationship had been largely responsible for the financial difficulties experienced by early teacher retirement systems. The use of mortality tables to determine the probable life expectancy of annuitants and the effect of the interest earned on accumulations were both mentioned in this explanation, but only briefly. This was partly in an endeavor to keep the explanation as simple as possible and partly because, during the period between 1913 and 1919 when the first sound teacher retirement systems were formed, both interest and mortality rates were relatively favorable. In recent years, however, the prevailing trend in

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1/ Cf. ante, pp. 21-23.

interest rates has been downward while the life expectancy of annuitants has increased. Both these factors have adversely affected the calculations upon which the retirement systems were originally based and, although they are quite closely interrelated, it may be somewhat simpler to discuss them separately.

<u>The decline in interest rates</u>.-- It has previously been emphasized in this paper that one great advantage of the reserve method of financing retirement plans is that the interest earnings on the invested reserve assist materially in reducing the cost of the system. Despite the importance of this interest, the factor of security is always considered of greater importance in handling such funds. In fact, nearly all the state teacher retirement boards are restricted, by law, to the safest types of investments. Since the return on such investments is never high, only a conservative rate of interest --usually 3½ to 4% -- was used in the actuarial calculations made when most of these retirement systems were founded. This conservatism, permitting the systems to show a fair interest profit while interest rates were high, at first helped to carry them over short periods of lower interest. After the stock market crash of 1929, however, interest rates were not only unstable but a downward trend developed. This trend continued from 1934 until the beginning of World War II[1] and "the World War II years (January, 1942 to July,

1/ Hugh O'Neill, *Op. cit.*, pp. 68-69.

1945) were unique in American history in that we fought our costliest war at gradually <u>falling</u> rates."1/

Interest rates are affected by three main factors. As explained by Richard Rapport, Bank Commissioner of the State of Connecticut:2/

> The first is the demand for and supply of savings; the second involves such things as the movement of gold, money in circulation, excess reserves in the Federal Reserve Banks, etc; the third, closely related, is governmental control, embracing central bank dealings in securities, and changes in reserve requirements or rediscount rates, and including Treasury manipulations of the dollar and Treasury control over the type and volume of governmental security offered to various investors.

This third factor, governmental control, exerted to an unprecedented extent during World War II, was largely responsible for checking the normal wartime rise of interest rates, and made it possible for the government to borrow much of the capital it needed at favorable rates. In spite of increased taxes, savings increased and there was little or no demand for loanable funds except by the government. This large supply of securities also tended to depress the interest rate still further.

Although at the end of the war reconversion increased the demand for loanable funds, the large amount of money available plus continued governmental control kept the interest

1/ Richard Rappoprt, "Some Current Thoughts on Investments," <u>National Council on Teacher Retirement Proceedings</u>. Washington: National Education Association, 1946, p. 33.

2/ <u>Ibid</u>., p. 30.

earnings at a low level. Only a runaway inflation would be likely to upset this trend and, since the increased interest rates which inflation would produce would be more than offset by its evils, governmental control and the resultant low interest is preferable.

Therefore "it would seem that all factors presently visible or expected combine to tell teacher retirement systems that the present average return of $2\frac{1}{2}\%$ is the highest to be hoped for"1/ for some years to come.

Although retirement systems have endeavored to maintain the interest rates guaranteed or predicated when the plans were organized, the continued low interest earnings have made such a demand upon both reserves and public funds that adjustments are inevitable. Contributions from either the public or the teachers, or both, must be increased to offset the decline in interest earnings or the allowances paid on retirement will have to be reduced. The usual pattern has been, first, a maintenance of the interest level and the allowances by the use of reserves and then of public funds, already followed in a few systems by a gradual decline in the allowances as the reserves were depleted and the demand upon public funds became too great. Although only a few of the systems have reached the point of adjusting rates, even those systems which have been paying adequate allowances can

1/ Richard Rapport, Op. cit., p. 37.

not allow this decline to continue and an increase in the rate of contribution will have to be made. In those systems where the rate of the teachers' contributions is a fixed percentage of salary, this means amending the law.

Changes in mortality rates.-- Mortality tables have been mentioned previously as the basis for determining the life expectancy of annuitants after retirement. Another way of expressing this is that a mortality table "consists of a tabulation of mortality statistics among a group of people and is used as a basis for determining future death rates."[1]

While it is theoretically possible for a retirement system to construct its own mortality tables, in actual practice accepted insurance mortality tables ordinarily are used although the experience of the system is also taken into consideration. The mortality rate is the number of persons per thousand, in any age group, which statistics indicate will die in the next year. Marked changes in mortality rates are eventually reflected in changed mortality tables. In the last twenty-five years mortality rates have been lower than previous tables predicated.[2] People are living longer than the tables indicated they would, due to such factors as improved public health measures, advances in medical science, and

1/ Hugh O'Neill, Op. cit., p. 50.

2/ United States Life Tables, 1890-1910. Washington: Department of Commerce, 1920, Tables 1 and 2, pp. 52-55.
Cf.
United States Life Tables, 1939-1940. Washington: Department of Commerce, 1946, Table 1, p. 26.

better living conditions. As a result of this increased longevity, mortality tables have had to be revised.

When an annuity is purchased, the size of the income obtained for a given amount of capital depends first upon the age and sex of the prospective annuitant. This information used in conjunction with a mortality table determines, on the basis of the probable life expectancy of that annuitant, the amount of income the insurance company can pay. Since each revised mortality table indicated a longer life expectancy for annuitants, this meant a corresponding drop in the annual annuity a given amount of capital would purchase. (Of course, the interest the insurance company could expect to earn on the capital when invested also affected the cost of the annuity and lowered interest rates added still more to annuity costs.)

Although it does not change the basic picture, it is significant to note, that although everyone is living longer now than formerly, mortality tables used to compute insurance rates are based on statistics on insured lives only, and the type of mortality tables used to compute annuity rates are actually annuity tables or "combined annuity mortality tables."1/ Annuity tables differ from regular mortality tables in that they are constructed from mortality statistics on annuitant's lives, only, and the experience of insurance companies has demonstrated that "annuitants, as a class, ...

1/ Hugh O'Neill, Op. cit., pp. 51 and 54, and Appendix B, pp. 349-356.

live longer"[1] presumably because of the freedom from worry which an assured retirement income affords them.

This change in mortality rates and the resultant necessary adoption of new mortality tables has served to further complicate the problem facing retirement boards. On the one hand, lower interest returns depleted the expected total accumulation available for a teacher at retirement; on the other, lower mortality rates increased the cost of the anticipated retirement income. In addition, the third economic factor, higher prices, reduced the buying power of what little income the teacher finally did receive.

As all three economic factors operate to produce the same general effect -- a reduction in the retirement income -- the same general adjustment will tend to solve all three problems. Obviously, the impact of all these influences upon retirement incomes makes the situation more acute and the adjustment more vital. This necessity is generally recognized and in most of the systems where the adjustment of contribution rates has not already been made (and of interest rates where guaranteed in the law) this is now contemplated.

II. Probable future trends

The probable trends, arising out of the present retirement problems have been so clearly forecasted in the discussion of most of these problems that any further elaboration

1/ Hugh O'Neill, _Op_. _cit_., p. 51.

of these trends becomes, substantially, a summary of the chapter.

Reciprocity.-- The question "What are the pros and cons of a deferred annuity as a substitute for the transfer of credit from one state to another?" was included in a questionnaire submitted to the states of the Southern Conference on Teacher Retirement in preparation for their 1947 meeting. This antedates the Reciprocity Committee report previously referred to in this study but the reaction provides an index of the probable general reaction to that report.

Representatives of thirty state teacher retirement systems were contacted in preparing the survey. Of these, eight either did not reply to the deferred annuity question or felt unqualified to express an opinion. Two definitely preferred reciprocal transfers of credit. New York already has such a provision (inoperative at present because no other state has followed suit) and Washington feels that the "cost of keeping accounts over many years and payment of small annuities [is] unsatisfactory."[1] The remaining twenty all favored deferred annuities as being fairer to each state and simpler to administer, although a few pointed out that it would increase the administrative work and would not be entirely satisfactory until adopted by all states. Of the states included in this

1/ N. O. Kimbler, "Questionnaire for Southern Conference on Teacher Retirement," for meeting at Austin, Texas, October 16-17, 1947. From a mimeographed copy of the report, p. 7.

survey, California, Kansas, North Carolina, Ohio, Oregon and Pennsylvania reported that their retirement plans already provide deferred annuities.

On the basis of these replies it is possible to predict a generally favorable national reaction to deferred annuities although there is one possible source of opposition not indicated by any of these replies. The smaller states which lose a larger number of teachers by transfer to better-paying states than they gain by transfer from other states will undoubtedly be less enthusiastic about deferred annuities since their adoption will tend to increase such transfers rather than to reduce them. Nevertheless, it may be predicted that the trend of reciprocal provisions will follow the recommendation of the Reciprocity Committee. It seems equally clear, however, that the legislation necessary to put these proposals into effect in those states which do not already offer deferred annuities may be considerably delayed. In many systems when a teacher withdraws from state service and receives a cash refund consisting of his contributions and all or a part of the interest, the remainder of that teacher's account (the state's contributions on behalf of the teacher, plus interest) is transferred to the reserve fund. Since the approximate rate of withdrawals is known, the money so transferred constitutes, in effect, an income and the approximate amount so realized is included in the financial calculations made for the system. If deferred annuities are granted, this

revenue will be lost and an additional cost added, as well. At present, economic conditions affecting retirement incomes are forcing retirement systems to face the added costs involved in the increased appropriations which will be necessary to offset lowered interest and mortality rates. Since this latter crisis affects all the teachers who remain in the state whereas the deferred annuities affect the comparatively small percentage of teachers who leave the state, there is hardly any question as to which legislation will receive prior attention.

Earlier retirement.-- Retirement plans, especially those which include a compulsory retirement age, make it possible for school administrators to "weed out" the older and often comparatively less efficient teachers, for the good of the schools and without unfairness to these older teachers whose security is provided for by their retirement incomes. As the newer retirement systems gain in strength they will tend to include this compulsory retirement age provision as experience has shown it is more satisfactory, on the whole, to retire all teachers at the same age.

Although the trend is definitely in the direction of a somewhat shorter teaching span, it is very unlikely that retirement plans will be liberalized to permit retirement at earlier ages than 62 or 65, certainly not with the same benefits as are now provided for the usual retirement age. The

problem of providing adequate incomes for the teachers retiring at the usual age will be difficult enough for the systems to solve and the costs of these liberalizing provisions are prohibitive at any time. It is, however, quite probable that such proposals will continue to be advanced, because of their popular appeal, until or unless many of the retirement systems publicize some of their present difficulties more widely and enlist the cooperation of their teachers' associations in solving them.

Increased contribution rates.-- Economic conditions affecting retirement systems -- inflated prices, lower interest returns on retirement reserves, and higher costs for adequate retirement annuities due to lower mortality rates -- will result inevitably in higher rates of contribution from both teachers and public funds. Otherwise retirement incomes would have to be reduced and, unless the incomes paid retired teachers are adequate, states cannot in fairness enforce compulsory retirement.

States which do not have compulsory retirement provisions and/or are unable to provide adequate retirement incomes for teachers retiring at ages 65 or 70 are already faced with a double problem. Their teachers tend to remain in service after their efficiency is impaired rather than retire on too meager incomes and school morale suffers. Such states are supporting retirement systems without obtaining the chief

benefits such systems should provide. Most of them will recognize, in time, that the additional financial outlay needed to increase the retirement incomes to adequate proportions is preferable to paying salaries to teachers who should be retired.

States which have set up compulsory retirement ages and paid adequate retirement incomes have seen the results in more efficient schools and higher teacher morale. They will not willingly sacrifice these benefits.

Teachers, in general, will be willing to pay an increased rate of contribution since they are aware that this increased rate on their salaries plus the increased rate of public contributions will insure that they will receive adequate retirement incomes.

The probable future retirement trends indicated by this study are: first, increased rates of contribution to offset present adverse economic influences; second, a compulsory retirement age provision added to those state retirement laws which do not contain such a provision with a resultant minor shortening of the average teaching span; and, third, a gradual adoption of deferred annuities to provide for the migratory teacher. Also that the crucial importance of the first problem overshadows the other considerations to such an extent that they may be sidetracked for a considerable period.

CHAPTER VII

SUMMARY AND CONCLUSIONS

I. Summary

The purpose of this study was to discover answers to the following three questions: (1) What are the principles upon which teacher retirement systems are based and how have they been developed? (2) Are these principles embodied in our present teacher retirement systems, especially those of Northeastern United States? (3) If not, what revisions may be necessary and what present problems indicate the trend of future developments?

Investigation revealed the answers to these questions, given in detail in the preceding chapters, which may now be briefly summarized.

Principles of teacher retirement.-- The principles upon which the early teacher retirement systems were based were developed largely through trial and error. Originating in charity for indigent ex-teachers, these principles progressed through the practice of mutual aid by teachers for themselves and other teachers, to the idea of public service recompensed through the use of public funds. The introduction of public responsibility and public money, however, served to shift the emphasis to the good of the schools. Present-day teacher

retirement systems are really organized to benefit the schools by maintaining a high quality of teacher morale. To accomplish this teachers are given retirement security so that during their active teaching their efficiency need not be impaired by any worry about their later years.

The ideal teacher retirement plan embodying all the fundamental principles upon which a sound and adequate system is based may be described best by a list of essential attributes:

1. The plan is financed on a joint-contributory reserve basis.
2. The member's contributions are computed to produce, at retirement, an adequate annuity at least approximately one-quarter of the average final salary, and an individual account is kept of each member's payments.
3. Contributions from public funds, computed on a like basis, approximately match those of the member and are paid on his behalf into the retirement reserves during his active service.
4. Membership is made voluntary for teachers in service when the plan is established and compulsory for all new members.
5. Both optional and compulsory retirement ages are so planned as to retain teachers during their years of highest efficiency and make it possible for them to retire or be retired before age or ill-health seriously impair that efficiency.
6. A reasonable amount of out-of-state service credit may be purchased by teachers who transfer from other states.
7. Adequate retirement allowances are provided for all those teachers who remain in service for the normal period of years.

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6. A reasonable amount of out-of-state service credit may be purchased by teachers who transfer from other states.
7. Adequate retirement allowances are provided for all those teachers who remain in service for the normal period of years.

8. Optional alternative allowances are permitted so that teachers who have dependents may provide for them.

9. Disability allowances are granted to teachers who have taught a reasonable length of time in the state but are forced by accident or illness to leave the service before the usual retirement age.

10. A reasonable amount of prior service credit is allowed to teachers in service when the plan is established.

11. Refunds of their own contributions and all or most of the interest earned by these contributions are made to teachers who resign from the system or are dismissed.

12. Similar refunds are made to the estates or beneficiaries of teachers who die before reaching the retirement age.

13. Deferred or refund annuities, which may be elected in place of cash refunds, are offered to teachers who leave the state service.

Ideal and actual systems compared.-- Most of these thirteen attributes, but rarely every one, are found in the present state teacher retirement systems throughout the country. As has been pointed out, there are significant differences in financing and also many of the newer systems are not able to provide fully adequate retirement incomes. Where this is true, the compulsory retirement age provision is usually lacking since this is only just where an adequate income can be assured. Alternative retirement allowances are offered by at least two-thirds, and the purchase of out-of-state credit

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by fully half of the states. Deferred or refund annuities, however, are offered by only approximately one-quarter of the retirement systems since, because of the expense involved and the fact that such a provision benefits only a relatively small number of the teachers, this must usually be postponed until all other important provisions have been attained.1/

The Northeastern States may be judged by comparing the list of ideal attributes with the specific provisions of each state law as tabulated in Chapter V. Such comparison immediately reveals the following information: Only Massachusetts does not have a joint-contributory reserve plan although, in Connecticut the member's reserve is not credited until the time of retirement. Only New Hampshire and New York lack a compulsory retirement age but in New York a teacher may be retired at age 70 if the local school board deems it advisable. Only New Hampshire fails to grant out-of-state service credit, and only Pennsylvania permits an entering teacher to purchase credit for all out-of-state service performed. Optional alternative allowances which may be selected to provide for dependents are offered by all these states except New Hampshire, and disability allowances are granted by all, although in New Hampshire such allowances are granted at the discretion of the Retirement Board. Only Connecticut and Pennsylvania offer refund annuities, and only Massachusetts and Pennsylvania defer-

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1/ Statutory Provisions for Statewide Retirement Systems, Op. cit., pp. 12-16, 22, 39, and 40-41.

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1/ *Statutory Provisions for Statewide Retirement Systems*, *Op. cit.*, pp. 12-16, 32, 33, and 40-41.

red annuities.

II. Conclusions

It does not seem to be the function of this study to commend or indict the retirement systems of these states beyond the above obvious comparisons. On the one hand, it is the province of experts to authoritatively decide such controversial points as whether or not specific state finances are on a sound basis, whether the stipulated rates of contribution will provide "adequate" allowances, and whether the amount of credit granted for prior and out-of-state service may be termed "reasonable," and no such expert opinions are available to be cited. On the other hand, any informed person, who has followed this study and carefully scrutinized the tabulations of state provisions, is in a position to draw independent conclusions.

Revisions which may be made.-- However, certain general conclusions may be drawn in regards to these same controversial points. If the basis on which the retirement plan is financed is considered satisfactory by that state, the fact that it does not conform to the ideal method as presented in this study is, in itself, no reason to presume that any change will be contemplated. Similarly, if prior and out-of-state service credit provisions are now present in a state retirement law and have proved satisfactory they will undoubtedly be continued in their present form, even though they may fall short of the

so-called ideal, unless later developments make changes necessary.

If, however, a state retirement law lacks a certain provision, there _is_ reason to assume that, when it is possible for the state to add that provision, it will be written into the law in the form which the experience of other states has indicated to be the most satisfactory.

The State of New Hampshire may be cited as a case in point. That the present New Hampshire State Teacher Retirement Law falls far short of the ideal is obvious from even the most superficial comparison. No one is any more aware of this fact than the New Hampshire State Teachers' Retirement Board and the Legislative Committee jointly connected with that Board and with the State Teachers' Association. This Committee, acting on the advice of Mr. George B. Buck, the consulting actuary of the New York City Teachers' Retirement System, is now drafting a new teacher retirement law based on a careful study of the best practices of other state retirement systems. This law, which will be presented at the 1949 session of the state legislature, is designed to place New Hampshire teachers on a more nearly equal retirement footing with the teachers of other states.1/ The State Teachers' Association is conducting a vigorous publicity campaign to acquaint the teachers of New

1/ Information given during an interview, April 14, 1948. Mrs. Edna A. Elwell, Secretary, New Hampshire State Teachers' Retirement Board to Susan C. Coyle.

Hampshire with the deficiencies of the present law and to enlist their support for the new law which will correct these. A very revealing slogan of that campaign is: "Lift New Hampshire out of the cellar."[1]

Revisions which must be made.-- The most vital revisions which, if not already made, will be necessary in all state retirement systems are revealed, however, not by comparing state and ideal provisions but by a consideration of present-day retirement problems. The adverse economic influences discussed in the preceding chapter[2] are making it practically impossible for these systems to pay adequate retirement allowances without increasing the rates of contribution from both teachers and public. A revision of interest rates guaranteed by law will also be necessary unless the states having such guarantees are willing to continue to make up the difference between the rate stipulated and that which actually can be earned. Two of the Northeastern States (New York and New Jersey) have already taken steps in this direction and the others must do so in the near future. New York has raised the percentage of salary deductions from 4% to 5% for all members who join after July 1, 1948.[3] (It should not be over-

1/ John H. Starie, Executive Secretary, "Talking Retirement," Publicity release. Concord, New Hampshire: New Hampshire State Teachers' Association, April, 1948, p. 2.

2/ Cf. ante, pp. 92-99.

3/ Cf. ante, p. 61.

looked, of course, that the fact that an increase to 5% is considered sufficient by the state retirement system of New York is no guarantee that in other states a 5% rate of salary deduction is sufficient since there is still a considerable difference in dollars between 5% of the average New York State teacher's salary and 5% of the average teacher's salary in many of the smaller states.) The public contribution in the New York System, being fixed by an actuary to provide, at retirement, a guaranteed percentage of the average final salary,[1] would have been raised without statutory amendment as soon as the actuary's calculations revealed that interest earnings and increased annuity costs were rendering previous sums inadequate. Since in Connecticut, Maine, and Massachusetts the member's contributions are also set at a fixed percentage of salary, these states will find it necessary to revise this rate upwards (depending somewhat upon the average salary being paid their teachers) unless, in Connecticut the state contributions alone are to be sufficiently increased to make up the allowances guaranteed by law or, in Maine and Massachusetts the allowances are to become inadequate.[2]

In the other Northeastern States rates will also need to be increased but this will not involve amending the law as the

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1/ Cf. *ante*, p. 76.

2/ Cf. *ante*, p. 75.

rates may be changed by the actuary as this becomes necessary.[1]

New Jersey has made adjustments in interest rates on payments refunded to those who withdraw from the state[2] and Massachusetts, New York, and Pennsylvania may find it necessary to do likewise unless their laws define "regular interest" as "interest actually earned."[3]

This adjustment in contribution rates (accompanied in many cases by a like adjustment in guaranteed interest rates) which must be made by all retirement systems constitutes the outstanding retirement trend of the immediate future and will take precedence over the other two important trends toward compulsory retirement age provisions and deferred annuities.

III. Recommendations for further study

Most retirement secretaries feel a sincere, personal interest in the problems of retired teachers and they find -- in their contacts with many of these ex-teachers who are idle, solitary, and unhappy -- that their problems extend considerably beyond those which may be solved by legislation. Some of these problems were suggested in the letters written by retirement secretaries in response to the request for information

1/ Cf. ante, pp. 61-62.

2/ Cf. ante, p. 80.

3/ Cf. ante, pp. 79-81.

made at the beginning of this investigation.[1] Since the scope of this paper does not legitimately extend beyond legislation these problems cannot be covered here but a brief exposition of the relationship of two of these to aspects of this study may serve as a guide for some later work.

The present inadequacy of retirement allowances provided by many of the smaller teacher retirement systems and the adverse effect of economic influences upon hitherto adequate retirement incomes has been stressed in the preceding chapter. The legislative approach to this problem has already been outlined but, in the meantime, the individual retired teachers must meet the problem of living on the incomes alloted to them.

The difficulty experienced by many retired teachers whose incomes are inadequate to meet present rising costs is aggrevated by the fact that most of them are not only alone but frequently without any other possible resources of either an economic or social nature which might alleviate their plight.

It is well-known that the great majority of the teachers in this country are women, most of whom are unmarried. Although many of these teachers support parents or other relatives during their years of service, by the time they retire they are usually living alone. It is almost equally well-known, and a fact frequently deplored, that teachers, as a

1/ Cf. ante, p. 2.

class, tend to congregate together out of school hours and often have few close contacts outside of their profession. This quite general lack of close family connections and of friends and interests outside of teaching contributes seriously to the unhappiness and dissatisfaction experienced by many teachers after they retire.

Investigation into ways in which these teachers could be helped to help themselves both economically and socially might well provide fertile ground for research.

Homes or Clubs for retired teachers.-- The establishment of one or more Homes for Aged Teachers, centrally located in a state, would help very materially to solve the economic problem of those teachers whose health is too poor for them to care for themselves effectively living alone and whose incomes do not permit them to enter good, commercial convalescent homes. It would also provide a more congenial atmosphere for those retired teachers whose advanced age makes living alone inadvisable, but who would find fewer contacts in a regular Home for the Aged. Such a project might be undertaken by either a State Teachers' Association, or by any similar interested group, even an organization of "younger" retired teachers for whom the administration of the project might provide an economic and social outlet.

The establishment, in any community, of a kind of Retired Teachers' Club which could be either a place where a group of

retired teachers might live together on a communal basis or simply a meeting place where they could congregate would help to solve the problem of those retired teachers who find themselves without associates or worthwhile interests and whose incomes seriously restrict their recreation. Such a Club or Communal House might well be organized by some retired teacher who owns a home of her own large enough for the project and who could find, in its administration, an outlet for her energies and an added source of income as well as of interest.

Investigation of this problem would, so far as is known to the writer, constitute an entirely original undertaking since no mention of this need has appeared in any publication covered during the course of the present study.

Avocations for retired teachers.-- While the establishment of Homes, Clubs, or even meeting places to offer teachers now retired an opportunity of finding congenial companionship and organizing worthwhile activities as well as helping to solve their economic problems would undoubtedly help to relieve the present situation, an even more fundamental solution would be to help prevent teachers now in service from finding themselves in a similar situation when they retire.

The most serious aspects of the economic problem will be solved by legislative action increasing the retirement incomes and most of the group of teachers now just entering middle age can look forward to adequate retirement incomes. Their

retired teachers might live together on a communal basis or simply a meeting place where they could congregate would help to solve the problem of those retired teachers who find themselves without associates or worthwhile interests and whose incomes seriously restrict their recreation. Such a Club or Communal House might well be organized by some retired teacher who owns a home of her own large enough for the project and who could find, in its administration, an outlet for her energies and an added source of income as well as of interest.

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greatest problem upon retirement will be the more personal one of finding worthwhile activities with which to occupy themselves. A service can be rendered to these teachers by providing them with information calculated to make them more conscious of this problem and of ways in which they can solve it for themselves.

Some preliminary investigation of the possibilities of worthwhile hobbies and avocations for retired teachers has already been made. It is felt by those interested in this problem that a teacher now in service who can look forward to an adequate retirement income should be sufficiently free from economic pressure in regards to her future to be able to divert a part of her present income to the pursuit of some outside interest which will provide her with an avocation or occupation after retirement.

Three references which would be helpful to anyone interested in undertaking further investigation of this problem are as follows: "Avocations for Retired Teachers" by J. Y. Shambach,[1/] "Problems and Avocations of Retired Teachers" by Madaline K. Remmlein,[2/] (these could probably be obtained most easily though the teachers' retirement secretary of the investigator's own state) and A Study of Later Maturity,

1/ J. Y. Shambach, "Avocations for Retired Teachers," National Council on Teacher Retirement Proceedings. Washington: National Education Association, 1941, pp. 37-47.

2/ Madaline K. Remmlein, "Problems and Avocations for Retired Teachers," National Council on Teacher Retirement Proceedings. Washington: National Education Association, 1947, pp. 27-34.

prepared by the Research Division of the National Education Association.[1/]

An investigation into the possibilities of avocations for retired teachers would aid in making information available to teachers now in service to help them to face this problem intelligently and realistically enough during their teaching careers to be prepared for worthwhile use of their time after retirement.

A like investigation into Homes or Clubs for teachers already retired might be instrumental in helping these teachers to help themselves out of difficulties which now seem, to many of them, insurmountable.

Both of these possibilities for further study offer opportunities not only for worthwhile research but also for effective public service.

1/ A Study of Later Maturity, Washington: National Education Association, 1947.

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